No. 98-149-CFX Title: College Savings Bank, Petitioner
v.
Florida Prepaid Postsecondary Education Expense Board, et al.

Docketed:
July 24, 1998 Court: United States Court of Appeals for the Third Circuit

Entry	Date	Proceedings and Orders
	Apr 20 1998	Application (A97-792) to extend the time to file a petition for a writ of certiorari from May 18, 1998 to July 17, 1998, submitted to Justice Souter.
	Apr 21 1998	Application (A97-792) granted by Justice Souter extending the time to file until July 17, 1998.
	Jul 17 1998	Petition for writ of certiorari filed. (Response due October 23, 1998)
	Jul 28 1998	Order extending time to file response to petition until September 22, 1998.
	Aug 17 1998	Order further extending time to file response to petition until September 23, 1998.
	Aug 17 1998	This extension is granted for all respondents.
	Sep 15 1998	Order further extending time to file response to petition until October 23, 1998.
	Sep 23 1998	Brief of respondent Florida Prepaid Postsecondary Education Expense Board in opposition filed.
	Oct 23 1998	Brief of respondent United States in opposition filed.
	Nov 2 1998	Reply brief of petitioner College Savings Bank filed.
	Nov 4 1998	DISTRIBUTED. November 25, 1998
	Dec 9 1998	REDISTRIBUTED. January 8, 1999
	Jan 8 1999	Petition GRANTED. The brief of petitioner is to be filed with the Clerk and served upon opposing counsel on or before 3 p.m., Monday, February 22, 1999. The brief of respondent is to be filed with the Clerk and served upon opposing counsel on or before 3 p.m., Wednesday, March 24, 1999. A reply brief, if any, is to be filed with the Clerk and served upon opposing counsel on or before 3 p.m., Monday, April 12, 1999. Rule 29.2 does not apply. SET FOR ARGUMENT April 20, 1999.
		**********
	Feb 22 1999	Brief of petitioner College Savings Bank filed.
	Feb 22 1999	Joint appendix filed.
	Feb 22 1999	Brief of respondent United States in support of petitioner filed.
	Feb 22 1999	Brief amicus curiae of International Trademark Association filed.
	Mar 15 1999	Record filed.
	Mar 16 1999	Motion of Solicitor General for divided argument filed.
	Mar 17 1999	CIRCULATED.
	Mar 23 1999	Motion of American Intellectual Property Law Association for leave to file a brief as amicus curiae filed.
	Mar 24 1999	Brief of respondent Florida Prepaid Postsecondary Education Expense Board filed.
	Mar 24 1999	Brief amici curiae of Ohio, et al. filed.
	Mar 24 1999	Brief amici curiae of National Conference of State

APP

No. 98-149-CFX

Entry	Date	Proceedings and Orders
		Legislatures, et al. filed.
	Mar 24 1999	Brief amicus curiae of University of California filed.
	Mar 26 1999	Opposition of respondent to motion of American Intellectual Property Law Association for leave to file a brief as amicus curiae filed.
	Apr 5 1999	Motion of Solicitor General for divided argument GRANTED. to be divided evenly between counsel for petitioner and the Solicitor General.
	Apr 5 1999	Motion of American Intellectual Property Law Association for leave to file a brief as amicus curiae GRANTED.
	Apr 8 1999	Reply brief of petitioner United States filed.
	Apr 9 1999	Reply brief of petitioner College Savings Bank filed.
	Apr 20 1999	ARGUED.

Supreme Court, U.S.
FILED
98 149 JUL 17 1998
OFFICE OF THE CLERK

No. _____

In The

Supreme Court of the United States

COLLEGE SAVINGS BANK,

Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITION FOR A WRIT OF CERTIORARI

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

Attorneys for Petitioner

160 pp

QUESTIONS PRESENTED

1. Did the United States Congress have the power under Section Five of the Fourteenth Amendment to enact that portion of the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"), which abrogated the states' Eleventh Amendment immunity for unfair competition suits alleging that a state engaged in false and misleading advertising of its product in violation of § 43(a) of the Lanham Act ?

2. Did Florida Prepaid Postsecondary Education Expense Board waive its Eleventh Amendment immunity under the constructive consent doctrine set forth by this Court in *Parden v. Terminal Ry. of Ala. State Docks. Dep't.*, 377 U.S. 184 (1964), by continuing to engage in the interstate marketing of its products after Congress' enactment of TRCA by which the states were subjected to suits in federal court for cases arising from violations of § 43(a) of the Lanham Act?

PARTIES TO THE PROCEEDING

In addition to the parties named in the caption, the United States of America was a party before the Court of Appeals.

Petitioner College Savings Bank has no parent company. It has one wholly owned subsidiary, College Savings Trust, Helena, Montana.

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APPENDIX

Appendix A. Opinion of the United States Court of Appeals for the Third Circuit Filed December 5, 1997.

Appendix B. Opinion of the United States District Court for the District of New Jersey Filed December 13, 1996.

Appendix C. Denial of Petitioner CSB's petition for rehearing filed February 17, 1998.

Appendix D. Opinion of the United States Court of Appeals for the Federal Circuit in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, __ F.3d __ (Fed. Cir. June 30, 1998).

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Third Circuit is reported at *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 131 F.3d 353 (3rd Cir. 1997) (App. A). The opinion of the United States District Court for the District of New Jersey is reported at *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 948 F. Supp. 400 (D.N.J. 1996) (App. B).

STATEMENT OF JURISDICTION

The judgment of the United States Court of Appeals for the Third Circuit ("Court of Appeals") was entered on December 5, 1997. The Court of Appeals denied a timely petition for rehearing on February 17, 1998 (App. C). College Savings Bank's application for an extension of time to file a Petition for a Writ of Certiorari was granted by Justice Souter on April 21, 1998, extending the time to and including July 17, 1998.

The jurisdiction of the Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT REQUIRED BY RULE 29.4(b)

Pursuant to Rule 29.4(b), the Court is informed that 28 U.S.C. § 2403(a) applies and the U.S. District Court for the District of New Jersey certified to the Attorney General that the constitutionality of Acts of Congress were called into question by Florida Prepaid's motions to dismiss. The United States Government intervened as an Intervenor-

Plaintiff-Appellant in the district court and also appealed to the United States Court of Appeals for the Third Circuit.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Eleventh Amendment provides:

> The judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by citizens of another state, or by citizens or subjects of any Foreign State.

The Fourteenth Amendment to the United States Constitution provides in relevant part:

> Section 1:
> "No State shall . . . deprive any person of life, liberty, or property, without due process of law."
>
> Section 5:
> "The Congress shall have power to enforce, by appropriate legislation, the provisions of this article."

Section 3 of the Trademark Remedy Clarification Act in relevant part provides:

> (a) LIABILITY AND REMEDIES.—Section 32(1) of the Act (15 U.S.C. 1114(1)) is amended by adding at the end thereof the following:
>
> "As used in this subsection, the term 'any person' includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this Act in the same manner and to the same extent as any nongovernmental entity."
>
> (b) LIABILITY OF STATES, INSTRUMENTALITIES OF STATES, AND STATE OFFICIALS.—The Act is amended by inserting after section 39 (15 U.S.C. 1121) the following new section:
>
> "Sec. 40. (a) Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this Act.

(b) In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity.

* * *

(d) DEFINITION.—Section 45 of the Act (15 U.S.C. 1127) is amended by inserting after the fourth undesignated paragraph the following:

"The term 'person' also includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this Act in the same manner and to the same extent as any nongovernmental entity."

Section 43(a) of the Lanham Act provides:

(a) (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any

word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

STATEMENT OF THE CASE

There are two constitutional issues involved in this case. First, petitioner College Savings Bank ("CSB") maintains that the Court of Appeals erred by concluding that Congress lacked the power under Section 5 of the Fourteenth Amendment to enact the TRCA making the states subject to suit under § 43(a) of the Lanham Act. Section 43(a) is a provision available only to protect a business against unfair competition, *i.e.*, to protect against the deprivation of property which results from unfair competition. As was recognized by the Court of Appeals, this Court has long recognized that a business is a property right protected by the Fourteenth Amendment. Contrary to the Court of Appeals decision, there is no basis for differentiating between business property rights which are subject to Fourteenth Amendment protection and those which are not.

Second, the Court of Appeals erred in concluding that the activities of Florida Prepaid are beyond the reach of the *Parden* doctrine because the Court applied the wrong test. *Parden v. Terminal Ry. of Ala. State Docks Dep't.*, 377 U.S. 194 (1964). The Court of Appeals has confused the difference between education as an important state function and the states entering into the commercial financial world by offering investment vehicles to assist private citizens in meeting the cost of a college education. Under the broad doctrine enunciated by the Court of Appeals, there is virtually no activity that could be undertaken by a state which would not be found to be beyond the reach of the *Parden* doctrine.

The jurisdiction of the U.S. District Court for the District of New Jersey was based upon 28 U.S.C. §§ 1131, 1137(a) and 1338(a) and 15 U.S.C. § 1121(a).

A. BACKGROUND OF THE COURT OF APPEALS' JUDGMENT

Petitioner College Savings Bank ("CSB") is a New Jersey chartered, FDIC-insured bank which has been engaged since 1987 in selling "CollegeSure® CDs," a deposit contract administered in accordance with a patented methodology that provides sufficient funds to meet future and unknown college expenses. Respondent Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid"), which was created by Fla. Stat. Section 240.551, is a "body corporate" of the State of Florida, which engages in the interstate marketing of a similar investment product in competition with CSB, *i.e.*, a program to meet future costs of a college education. The Florida Prepaid program, which has been offered since 1988, is advertised and promoted nationally by brochures, press releases and other means.

B. THE PROCEEDINGS BELOW

CSB brought an action against Florida Prepaid on November 7, 1994, Civ. No. 94-5610 (GEB), in the United States District Court for the District of New Jersey, contending that Florida Prepaid had infringed CSB's patent. CSB filed a second complaint, the one giving rise to this petition, against Florida Prepaid on August 25, 1995, alleging that Florida Prepaid's interstate marketing of its program was in violation of § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and the common law tort of unfair competition, Civ. No.

95-4516 (GEB). CSB contends that Florida Prepaid has falsely represented that the State of Florida guarantees that all beneficiaries will have an amount necessary to pay for the cost of a college education; that tax liability on the contract is deferred until the benefits of the contract, including proceeds for dormitory expenses, are disbursed upon enrollment in college; that Florida Prepaid's investment portfolio is backed by the "full faith and credit" of the United States; and that Florida Prepaid failed to disclose the existence of CSB's patent infringement case.

Florida Prepaid answered CSB's Lanham Act complaint and filed a counterclaim on November 8, 1995, which challenged the reach of the First Amendment by contending that certain statements made by Mr. Peter Roberts, President of CSB, represented actionable defamation, product disparagement, and trade libel. CSB filed a motion to dismiss the counterclaim on February 9, 1996, contending that a governmental entity cannot maintain libel or defamation actions because they are inconsistent with the free speech guarantees of the First Amendment. That motion was granted by the District Court on March 22, 1996. The dismissal was not appealed and the district court decision is not involved in this petition. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd., 919 F. Supp. 756 (D.N.J. 1996) ("College Savings Bank I").*

Subsequent to this Court's decision in *Seminole Tribe v. Florida*, 517 U.S. 44 (1996), Florida Prepaid filed motions to dismiss both the Patent Act and Lanham Act cases contending that the decision deprived the court of jurisdiction under the Eleventh Amendment. Florida Prepaid's motion to dismiss CSB's Lanham Act case was granted and the case

dismissed by the District Court's order of December 13, 1996. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd., 948 F. Supp. 400 (D.N.J. 1996) ("College Savings Bank II").*[1]

A timely appeal was filed with the United States Court of Appeals for the Third Circuit. The Court of Appeals affirmed the district court's judgment.

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[1] The district court, in the same decision giving rise to this petition, denied Florida Prepaid's motion to dismiss the Patent Act case. This denial was based upon the district court's finding that Section Five of the Fourteenth Amendment empowered the Congress to enact the Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230, which amended the Patent Act to permit States to be brought into federal court to defend against patent infringement claims. 35 U.S.C. §§ 271(h) and 296. This was based upon the district court's finding that a patent is a property interest that Congress can protect by exercising its abrogation power under Section Five of the Fourteenth Amendment. This holding was appealed by Florida Prepaid to the United States Court of Appeals for the Federal Circuit. The Federal Circuit affirmed the district court in a decision issued on June 30, 1998. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, __ F.3d __, (Fed. Cir. 1998) (App. D.).

ARGUMENT

I. THE PETITION FOR A WRIT OF CERTIORARI SHOULD BE GRANTED BECAUSE THE COURT OF APPEALS HAS HELD AN ACT OF CONGRESS UNCONSTITUTIONAL BY HOLDING THAT THE LIBERTY AND PROPERTY RIGHTS PROTECTED BY § 43(A) OF THE LANHAM ACT ARE NOT PROTECTED BY THE FOURTEENTH AMENDMENT, A DECISION WHICH IS CONTRARY TO CLEAR FINDINGS BY THIS COURT THAT BUSINESS PROPERTY IS PROTECTED BY THE FOURTEENTH AMENDMENT.

In this case of first impression, the Court of Appeals declared unconstitutional the *Trademark Remedy Clarification Act of 1992*, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"). In enacting the TRCA, Congress abrogated the Eleventh Amendment immunity of the States in order to permit federal court jurisdiction over actions under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The Court of Appeals' decision, which served to nullify Congress' Section 5 enforcement powers, is contrary to this Court's construction of the scope of the liberty and property interests protected by the Fourteenth Amendment.

In addition to the Court of Appeals decision in the instant case, other circuits have addressed the scope of Congress' Section 5 powers subsequent to *Seminole*. *See College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, __ F.3d __, (Fed. Cir. 1998) (App D.). *Chavez v. Arte Publico Press*, 139 F.3d 504, 510-11 (5th Cir.

1998); and *In re Creative Goldsmiths of Washington, D.C., Inc.*, 119 F.3d 1140 (4th Cir. 1997). The Federal Circuit decision was in an appeal from the same district court decision giving rise to the Third Circuit Court of Appeals decision addressed in this petition.

The Third Circuit Court of Appeals expressed the fear that accepting CSB's argument would give to Congress "almost unrestricted power to subject states to suit through the exercise of its abrogation power." App. A at 16a. The Fifth Circuit held that any right created by Congress pursuant to Article I is beyond the reach of Congress' abrogation power under Section 5 of the Fourteenth Amendment. *Chavez v. Arte Publico Press*, 139 F.3d 504, 511 (5th Cir. 1998) ("Congress could easily legislate 'property' interests and then attempt to subject states to suit in federal court for the violations of such interests. This end-run is just as possible under a liberal interpretation of the Due Process Clause of the Fourteenth Amendment as it was under the theories of Article I rejected by the Court in *Seminole*".).

The Federal Circuit disagreed with the above analyses. *College Savings Bank*, App. D at 111a. ("These cases miss the mark, however, because they ignore the essential fact that, because the Fourteenth Amendment was enacted subsequent to the Eleventh Amendment, unlike Article I, it expressly qualified the principle of sovereign immunity.") The Federal Circuit concluded:

> Our sister circuits wrongly equate the result afforded by Congressional power under the Fourteenth Amendment and Article I with the Constitutional structure under which Congress

> governs and the federal courts exercise jurisdiction. When the states adopted the Fourteenth Amendment, and consented to cede a portion of their authority to the federal government, it was within their contemplation that they limited their Eleventh Amendment immunity. *Fitzpatrick* teaches so, and we adhere to its reasoning. *See* 427 U.S. at 453-54.

Id. at 111a.

There is a clear split between the Third (and Fifth) and Federal Circuits in the approach to the scope of Congress' power under Section 5. As discussed by the Federal Circuit, the implications of the decisions of the Third and Fifth Circuits would eliminate Congress' power under Section 5 to enforce the provisions of Section 1 as applied to a wide range of property rights protected by the Fourteenth Amendment.

As found by the Federal Circuit, the jurisdictional restrictions imposed by the Eleventh Amendment cannot defeat the power of Congress under Section 5 of the Fourteenth Amendment. The Federal Circuit's interpretation of the congressional power under the Fourteenth Amendment is in accord with the precedents of this Court.

Additionally, it is this Court, not the Congress, which established that a business is a property right protected by the Fourteenth Amendment. The property right to be free of unfair competition is central to the property rights of a business. Further, unfair competition is made actionable in order to guard the "right to acquire property by . . . the conduct of a

lawful business." *International News Service v. Associated Press*, 248 U.S. 215, 236 (1918). The Court of Appeals, however, implicitly, and inaccurately, concluded that by the enactment of the TRCA, Congress was exercising its Fourteenth Amendment Section 5 abrogation power for causes of action that stemmed solely from Congress' Article I powers. App. A at 17a. ("Congress could pass any law that tangentially affected the ability of a business to operate and then create causes of action against the states in federal court if they infringed on those federally created rights.")

A. CONGRESS' SECTION FIVE, FOURTEENTH AMENDMENT POWER.

This Court in *Seminole* recognized that Congress has the authority under the Fourteenth Amendment to enact legislation to enforce the provisions of the Amendment including abrogating the Eleventh Amendment immunity of the states:

> In *Fitzpatrick*, we recognized that the Fourteenth Amendment, by expanding federal power at the expense of state autonomy, had fundamentally altered the balance of state and federal power struck by the Constitution . . . . We noted that § 1 of the Fourteenth Amendment contained prohibitions expressly directed at the States and that § 5 of the Amendment expressly provided that "The Congress shall have the power to enforce, by appropriate legislation, the provisions of this article." . . . We held that through the Fourteenth Amendment, federal

> power extended to intrude upon the province of the Eleventh Amendment and therefore that § 5 of the Fourteenth Amendment allowed Congress to abrogate the immunity from suit guaranteed by that Amendment.

Seminole, 517 U.S. at 59 (citations omitted). *See also City of Boerne v. Flores*, 117 S. Ct. 2157 (1997).

The Court of Appeals correctly found that this Court has set forth a two-part standard to determine Congress' power to abrogate the Eleventh Amendment immunity of the States. This Court has stated that in order to find a valid abrogation, two questions must be answered affirmatively: "First, whether Congress has 'unequivocally expresse[d] its intent to abrogate the immunity,' and; second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Seminole*, 517 U.S. at 55.

The Court of Appeals found that the language of the TRCA "manifests Congress' unambiguous intent to abrogate the states' immunity." *College Savings Bank II*, App. A at 8a. This finding by the Court of Appeals is beyond argument. The pertinent portions of the TRCA state that any state, or instrumentality of the state "shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person. . . . " 15 U.S.C. § 1122. Therefore, Congress' action satisfies the first part of the test as set forth in *Seminole*.

The Court of Appeals' also found that: "Clearly, a business is an established property right entitled to protection

under the Fourteenth Amendment." (Citations omitted) App. A at 15a. Despite that holding, the Court of Appeals found that the TRCA failed to meet the second part of the test set forth in *Seminole* by concluding that destruction of the property interests of CSB by unfair and deceptive advertising is beyond the reach of the Fourteenth Amendment. The Court held, with respect to § 43(a) of the Lanham Act, that the "only cognizable property right that could be involved would be a right to be free of false advertising, a right that is not an intangible property right protected under the Fourteenth Amendment." App. A at 14a. The court also held that "just because the state's actions impact on a private business does not mean that this action somehow infringes on the Fourteenth Amendment rights of the private individual." App. A at 16a, 17a.

Those holdings misstate the issue. The essence of the property rights protected by § 43(a) is the loss of revenue and profits that results from a competitor falsely advertising its product. The "state's action impact[ing] on" CSB was the loss of customers. By engaging in unfair competition, Florida Prepaid has made sales of its investment products which would otherwise have been made by CSB. CSB has lost the earnings that would have resulted from those sales. Ultimately, it is this loss of money, which clearly is property, that § 43(a) is designed to protect.

In sum, the attempt by the Court of Appeals to bifurcate property rights into those which are protected by the Constitution and those which are not is fatally flawed.

B. SECTION 43(a) OF THE LANHAM ACT PROTECTS A BUSINESS' PROPERTY RIGHTS.

Section 43(a) of the Lanham Act represents a federal codification of the tort of unfair competition, a tort that, by definition, serves to protect property rights. The Act in pertinent part states that the intent is "to protect persons engaged in . . . commerce against unfair competition . . . . " 15 U.S.C. § 1127. It has long been recognized that the tort of unfair competition protects property rights. As noted in *Prosser and Keeton on Torts:* "unfair competition torts appear to involve less a question of tortious activity than a question of *property* to be protected. Intangible interests . . . are often treated as *property* and given protection even from innocent and unknowing infringement by others." W. Page Keeton, et al., *Prosser and Keeton on the Law of Torts*, § 130, at 1015 (5th Ed. 1984) (emphasis added).

Further, § 43(a) of the Lanham Act is simply a federal codification of the common law tort of unfair competition. *See SK&F, Co. v. Primo Pharmaceutical Laboratories*, 625 F.2d 1055, 1066 (3d Cir. 1980) ("[E]xcept for the interstate commerce requirement, the elements of the unfair competition torts described by New Jersey law and by Section 43(a) of the Lanham Act are the same."). *See also, AT&T Co. v. Winback and Conserve Program, Inc.*, 42 F.3d 1421, 1428 (3d Cir. 1994), *cert. denied*, _____ U.S. ____, 115 S. Ct. 1838 (1995). Thus, the Fourteenth Amendment, by affording protection to "property," by its terms extends to the tort of unfair competition.

Treating the rights against unfair competition codified by § 43(a) of the Lanham Act as property rights protectable by the Fourteenth Amendment and within Congress' power under Section Five of that Amendment is consistent with this Court's precedent. *International News Services v. Associated Press*, 248 U.S. 215, 236 (1918) ("[T]he *right to acquire property* by honest labor or the conduct of a lawful business is as much entitled to protection as the *right to guard property already acquired. . . . It is this right that furnishes the basis of the jurisdiction in the ordinary case of unfair competition).* (citations omitted) (emphasis added).

More recently, this Court broadly defined property rights to include even the right to publicity. *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977). The Court in that case recognized the broad scope of "property" rights and also noted that protecting the right of publicity "provides an economic incentive for him to make the investment required to produce a performance of interest to the public. The same consideration underlies the patent and copyright laws long enforced by this Court." *Id* at 576.

C. BUSINESSES HAVE LIBERTY AND PROPERTY INTERESTS PROTECTED BY THE FOURTEENTH AMENDMENT.

A long line of decisions of this Court have found that a business is a property or liberty interest. It follows inexorably that the Fourteenth Amendment protects against any activities by the states that impair or destroy a business' property. Similarly, the Congressional power under the Fourteenth Amendment "to enforce by appropriate legislation the provisions" of the Fourteenth Amendment

encompasses legislation protecting against actions by an "arm of the state" that may impair or destroy a business' property (by engaging in unfair and misleading marketing practices proscribed by § 43(a) of the Lanham Act, for instance).

This Court has recognized that the rights protected by the Fourteenth Amendment are inextricably intertwined and that it is immaterial whether an interest is characterized as a property interest or a liberty interest. *Smith v. Texas*, 233 U.S. 630, 636 (1914) ("Life, liberty, property and the equal protection of the law, grouped together in the Constitution, are so related that the deprivation of any one of those separate and independent rights may lessen or extinguish the value of the other three"). It is well established that a "business" is a property right entitled to protection under the Fourteenth Amendment. This Court has found that a "business . . . is a property right, entitled to protection against unlawful injury or interference . . . ." *Duplex Co. v. Deering*, 254 U.S. 443, 465 (1920).

Additionally, this Court repeatedly has held that the enforcement power of Congress under Section Five of the Fourteenth Amendment reaches "practices that in and of themselves do not violate" the Amendment. *City of Rome v. United States,* 446 U.S. 156, 177 (1980), relying, *inter alia*, upon *Ex Parte Virginia,* 100 U.S.C. 339 (1879); and *South Carolina v. Katzenbach,* 383 U.S. 301 (1966). This Court's decision in *City of Boerne v. Flores*, ____ U.S. ___, 117 S. Ct. 2157 (1997), again reconfirmed Congress' Section 5 power to enforce the Fourteenth Amendment through legislation, regardless of whether there has been a constitutional tort.

The Court of Appeals recognized the breadth of the interests found by this Court to be within the scope of property and liberty rights protected by the Fourteenth Amendment. *See* App. A at 14a, citing *Tulsa Professional Collection Serv. v. Pope*, 485 U.S. 478, 485 (recognizing an unsecured claim against the state); *Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 430 (1982) ("[T]he types of interests protected as 'property' are varied and, as often as not, intangible, relating 'to the whole domain of social and economic fact' ") (citations omitted); *Paul v. Davis*, 424 U.S. 693, 710 (1976) ("[T]here exists a variety of interests which are difficult in definition, but are nevertheless comprehended within the meaning of 'liberty' or 'property' as meant in the Due Process Clause"). *See also Liggett Co. v. Baldridge*, 278 U.S. 105, 111 (1928), overruled on other grounds, *North Dakota Pharmacy Bd. v. Snyder's Stores,* 414 U.S. 156 (1973); *Pierce v. Society of Sisters,* 268 U.S. 510, 536 (1925); *Truax v. Corrigan*, 257 U.S. 312, 327 (1921); *Smith v. Texas*, 233 U.S. 630, 636 (1914); and *United States v. Tropiano*, 418 F.2d 1069, 1076 (2d Cir. 1969), *cert. denied*, 397 U.S. 102 (1970) ("the right to pursue a lawful business including the solicitation of customers necessary to the conduct of such business has long been recognized as a property right within the protection of the Fifth and Fourteenth Amendments to the Constitution") (citations omitted).

Despite its discussion of the broad protection afforded to businesses under the Fourteenth Amendment, the Court of Appeals has failed to follow the precedents of this Court defining the scope of that protection.

In contrast, the Federal Circuit found that Florida Prepaid had cited "no authority forbidding Congress from enacting statutes that abrogate state immunity in order to protect persons from property deprivations without due process of law." App. D at 105a. This applies equally to the Third Circuit's decision in the instant case. As concluded by the Federal Circuit:

> "Surely the enforcement power of Congress under Section 5 must embrace the full range of behavior that the Supreme Court has held to violate the substantive provisions in Section 1 of the Amendment."

(Citation omitted.) *Id.*

D. THE COURT OF APPEALS' DECISION IS UNSUPPORTED BY THE CASES RELIED UPON.

The Court of Appeals placed principal reliance for its holding upon *Gentry v. Howard*, 365 F. Supp. 567 (W.D. La. 1973). App A at 16a. That case stands for the unremarkable proposition that the loss of revenue resulting from a competitive service operated by a governmental entity "does not amount to a taking or deprivation of property within the meaning of the Fourteenth Amendment." *Id* at 16a. As found in that case, mere competition is not in violation of the guarantees of the Fourteenth Amendment. The Fourteenth Amendment guarantees, however, do extend to a state destroying a business' property by engaging in false and misleading advertising.

The Court of Appeals also relied upon *Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170 (1934), noting "the Fourteenth Amendment does not protect a business against the hazards of competition." App. A at 16a. The statement quoted by the Court of Appeals is inapplicable to this case. CSB's complaint does not seek protection from the hazards of competition, but rather protection against unfair competition in the form of false and deceptive statements that deprive CSB of its revenues and profits.

The Court of Appeals' reliance on *Paul v. Davis*, 424 U.S. 693 (1976), is also misplaced. App. A at 15a. In *Paul*, this Court rejected the proposition that a person's personal reputation alone, without monetary loss, represents an intangible property interest protected by the Fourteenth Amendment. The Court held that the prior Supreme Court cases do not establish that "reputation alone, apart from some more tangible interest such as employment, is either 'liberty' or 'property' by itself sufficient to invoke the procedural protection of the Due Process Clause." *Paul v. Davis*, 424 U.S. at 701. The right of a business, such as CSB, to seek redress for the monetary loss caused by false advertising is a property and liberty interest that differs fundamentally from the personal reputation issue addressed in that case.

The Court of Appeals also suggested that there could be a constitutional distinction within § 43(a) of the Lanham Act depending upon whether the violation consists of misrepresentation about a competitor's goods, or services or misrepresentation of one's own goods and services, which is the claim raised by CSB's complaint. App A at 17a. There is, however, no principled distinction between the two kinds of misrepresentations. The property and liberty interests

harmed by misrepresentation of a competitor's own goods or services are exactly the same as the interests harmed by misrepresentation about another person's goods or services. CSB recognizes that the panel did not decide the issue. Nevertheless, raising the possibility of a different outcome demonstrates confusion about the issue of the property interests protected by the Fourteenth Amendment.

A business represents a property right, a proposition which is beyond dispute. It is therefore neither feasible nor constitutionally sound to divide that property right so that only some portions of the right are protected by the Fourteenth Amendment. If the competitor - whether a state or a private entity - threatens a property right, Congress has the constitutional authority to prohibit that behavior, and under Section 5 of the Fourteenth Amendment, the constitutional authority to make the states amenable to suit in federal court.

II. THE PETITION FOR A WRIT OF CERTIORARI SHOULD BE GRANTED BECAUSE THE COURT OF APPEALS HAS MISAPPLIED THE *PARDEN* DOCTRINE.

The Court of Appeals declined to affirm the district court's holding that this Court's decision in *Seminole* implicitly overruled *Parden*. App. A at 24a. ("[A] court of appeals should be reluctant to hold that the Supreme Court implicitly has overruled its own decision when the Court had

an opportunity to overrule the decision explicitly and did not do so.").[2]

In *Parden*, this Court found that Congress had the power to enact legislation governing conduct in areas not

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[2] The Fifth Circuit has found that *Parden* was overruled by *Seminole*. *Chavez v. Arte Publico Press*, 139 F.3d 504, 506-08 (5th Cir. 1998). ("A fair reading of *Seminole* inescapably suggests that we must 'drop the other shoe' and declare that Congress cannot condition states' activities that are regulable by federal law upon their implied consent' to being sued in federal court.") (footnote omitted). *Id.* at 508. The Fifth Circuit concluded that its holding was not a "presumptuous, premature overruling of Supreme Court precedent." *Id.* at 508. Despite this claim, the Fifth Circuit has ruled on what it thinks this Court *will* do, not what it has done, premised principally upon this Court's decision in the now-overruled *Pennsylvania v. Union Gas*, 491 U.S. 1 (1989), and in particular Justice Scalia's dissent in that case. The Fifth Circuit's reasoning is essentially identical to the reasoning of the district court in the instant case, which the Third Circuit Court of Appeals properly declined to affirm. App. B at 68a-73a. CSB contends that the Third Circuit was correct and that it should be left to this Court to decide the fate of *Parden*.

Further, the Fifth Circuit has misinterpreted *Seminole*. In *Seminole* this Court referred to *Parden* as standing for "the unremarkable proposition that the States may waive their sovereign immunity." *Seminole*, 517 U.S. at 65. Both the Fifth Circuit and the district court in the instant case have dismissed the importance of the statement. *See Chavez*, 139 F.3d at 508 and App. B at 73a n.21. Those courts conclude that the statement only recognized the proposition that the states may choose to waive their immunity by a deliberate choice, *i.e.*, declining to assert their Eleventh Amendment immunity. The *Parden* doctrine, however, relates solely to waiver by conduct, *i.e.*, choosing to engage in an activity subject to federal regulation after Congress has made it clear that to do so will be deemed a waiver of immunity. It simply makes no sense to construe this Court's *Parden* discussion as referring to deliberate, explicit waiver by the States.

committed exclusively to the public domain and to deem a state to have constructively waived its Eleventh Amendment immunity if, after passage of the legislation, a state engaged in the regulated activity. *Parden*, 377 U.S. at 196. ("When a state leaves the sphere that is exclusively its own and enters into activities subject to Congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation.")

The Court of Appeals set out a four-part test for determining whether the *Parden* doctrine should be applied to hold that a state has waived its Eleventh Amendment immunity and held in this case that the first three requirements of the four-part test had been met. The Court of Appeals found that by the enactment of the TRCA Congress intended that a state or instrumentality engaging in proprietary activity "that potentially falls under the Lanham Act . . ." can be held liable in federal court for violations of that Act. 15 U.S.C. § 1122. Thus, this Court's requirement that there be a clear statement of Congressional intent was met by the TRCA. *Welch v. Texas Dep't. of Highways and Pub. Transp.*, 482 U.S. 468, 478 (1987). Further, the TRCA served to give the states clear notice that continuing to engage in the regulated activities would be deemed a waiver of sovereign immunity. Finally, Florida Prepaid has engaged in the activity covered by the federal legislation, *i.e.*, has engaged in allegedly unfair competition under § 43(a) of the Lanham Act.

In the case at bar, there can be no doubt about the Congressional intention, as the Court of Appeals correctly found. Congress' sole purpose in enacting the TRCA was to allow the states to be brought into federal court to answer for violations of the Lanham Act, including § 43(a). Therefore,

the *Employees* test, which focused exclusively on discerning Congressional intent, has clearly been met, as has the requirement set forth by this Court in *Welch* that Congress' intent be expressed in unmistakably clear language.

Providing investment instruments to assist in meeting the cost of college is not a sphere committed exclusively to the states, and is therefore within the scope of *Parden*. The Court of Appeals, however, concluded that the *Parden* test was changed by this Court's decision in *Employees of the Dep't. of Pub. Health & Welfare v. Dep't. of Pub. Health & Welfare*, 411 U.S. 279 (1973). The Court of Appeals interpreted *Employees* as standing for the proposition that "a state cannot be deemed to have waived its immunity if it is engaged in an important or core government function." App. A at 19a. That is an overbroad reading.

Employees was decided prior to this Court's decision in *Welch v. Texas Dep't. of Highways and Pub. Transp.*, 483 U.S. 468 (1987), in which this Court stated that the application of the *Parden* doctrine "required an unequivocal expression that Congress intended to override Eleventh Amendment immunity." *Id.* at 478. *Employees* was a forerunner of the *Welch* decision relative to the needed clarity of the intention of Congress. In *Employees*, this Court concluded that "Congress desired to bring under the Act employees of hospitals and related institutions." 411 U.S. at 283. The significant finding by the Court, however, is that there was "not a word in the history of the [Act] to indicate a purpose of Congress to make it possible for the citizens of that State or another State to sue the State in the Federal Courts." *Id.* at 285. Because of the sweeping implications of concluding that Congress intended to impose a constructive waiver,

the Court held that "we cannot conclude that Congress conditioned the operation of these facilities on the forfeiture of immunity from suit in a federal forum." *Id.* at 285. In summary, the *Employees* case does not stand for the proposition that this Court has changed the basic test as set forth in *Parden*, *i.e.*, that the Congress has authority to impose a constructive waiver "when a state leaves the sphere that is exclusively its own and enters into activities subject to Congressional regulation." Rather, *Employees* is a forerunner of this Court's decision that Congress must clearly express its abrogation intent for the *Parden* doctrine to apply.

The Court of Appeals' discussion of the overall importance of education and the importance of education to the states is immaterial to the issue before this Court. App. A at 21a-24a. The Court of Appeals has confused the distinction between the role of the states in providing educational institutions with the quite different function of providing investment vehicles for assisting parents and others to meet the cost of college. That is not a core function of the states and certainly is not a sphere of authority exclusive to the states. *See Genentech, Inc. v. University of California*, __ *F.3d* __, 46 USPQ 2d 1586, 1592 (Fed. Cir. 1998) ("[T]he University's actions are not at the core of the educational/research purposes for which the University was chartered. . . .")

The Court of Appeals' interpretation would deprive the *Parden* doctrine of meaning since virtually any activity undertaken by the state could be interpreted as assisting some function deemed to be important to a state government. The Court of Appeals properly held that it would be improper for the Court to hold that the *Parden* doctrine has been overruled by implication. The Court of Appeals, however, by finding

Parden inapplicable based upon a conclusion that education is an important state function, effectively overrules the *Parden* doctrine by application.

In sum, the Court of Appeals erred in finding Florida Prepaid's offering of investment vehicles is beyond the reach of the *Parden* doctrine.

CONCLUSION

This case presents questions of exceptional importance -- (1) whether the Congress acted beyond its constitutional power in enacting the TRCA to the extent that it permits suits against the states for falsely advertising their products, an issue which, *inter alia*, requires a constitutional definition of the scope of the property interests protected by the Fourteenth Amendment; and (2) the proper application of the *Parden* doctrine. CSB contends that the Court of Appeals has erred in the restricted reading given to the Fourteenth Amendment and *Parden*. Additionally, there is a significant split in the Circuits on the proper interpretation of *Seminole*. By granting the petition, this Court can clarify that *Seminole* was not intended to disturb Congress' Section 5 powers under the Fourteenth Amendment or to restrict the reach of *Parden*.

Therefore, CSB respectfully requests that its petition for a writ of certiorari be granted.

July 17, 1998

Respectfully submitted,

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037-1350
(202) 457-6000

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ
& GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 97-5055 and 97-5086

COLLEGE SAVINGS BANK,
Appellant in No. 97-5055

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

COLLEGE SAVINGS BANK

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

United States of America,

Appellant in No. 97-5086

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 95-4516)

Argued October 20, 1997

BEFORE: MANSMANN, GREENBERG, and ALARCON,* *Circuit Judges*

(Filed December 5, 1997)

OPINION OF THE COURT

GREENBERG, *Circuit Judge*.

I. INTRODUCTION

College Savings Bank ("CSB") and the United States appeal from a final judgment entered in the district court on December 16, 1996, dismissing an unfair competition claim CSB brought against Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid") under the Lanham Act. *See* 15 U.S.C. § 1051 *et seq.* They assert that the district court had jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1338(a). We have jurisdiction to review the judgment of the district court pursuant to 28 U.S.C. § 1291, and we exercise plenary review. *See Alston v. Redman*, 34 F.3d 1237, 1242 (3d Cir. 1994).

II. FACTUAL AND PROCEDURAL HISTORY

CSB is a New Jersey chartered, FDIC-member bank. Since 1987, it has been selling CollegeSure(R) CDs which are deposit contracts designed to provide sufficient funds to cover future costs of college education. CSB administers these deposit contracts in accordance with a patented methodology. *See College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 948 F. Supp. 400, 401 n.1 (D.N.J.

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* Honorable Arthur L. Alarcon, Senior Judge of the United States Court of Appeals for the Ninth Circuit, sitting by designation.

1996). The State of Florida created the appellee Florida Prepaid to market and sell tuition prepayment programs designed to provide sufficient funds to cover future college expenses. *See* Fla. Stat. ch. 240.551 (1997). In conjunction with the sale of its accounts, Florida Prepaid publishes brochures and issues annual reports. Thus, CSB and Florida Prepaid compete in selling this type of college savings account.

CSB first brought an action in the district court against Florida Prepaid on November 7, 1994, alleging that Florida Prepaid had infringed its patent. CSB subsequently brought another action in the same court on August 25, 1995, against Florida Prepaid alleging that it had violated section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).[1] CSB claimed in the second action that Florida Prepaid made misstatements about Florida Prepaid's tuition savings plans in its brochures and annual reports which constituted unfair competition. We deal only with the second action and thus our further references are to that case.

Florida Prepaid answered the complaint and filed a counterclaim on November 8, 1995, alleging defamation, product disparagement, and trade libel based on statements made by Peter Roberts, president of CSB. CSB moved to dismiss the counterclaim on February 9, 1996, and the district court granted that motion on March 22, 1996.

Florida Prepaid filed motions to dismiss CSB's complaint on April 26, 1996, alleging that the recent Supreme Court decision of *Seminole Tribe of Fla. v. Florida*, 116 S.Ct. 1114

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[1] It also pleaded a common law tort of unfair competition but we will not discuss that claim further as the district court dismissed it, and the claim obviously could not be asserted successfully in the light of the Eleventh Amendment.

(1996), which confined Congress' authority to abrogate a state's Eleventh Amendment immunity from a suit in a federal court to the enforcement section of the Fourteenth Amendment, deprived the district court of jurisdiction. Florida Prepaid claimed that: (1) in the light of *Seminole Tribe*, the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"), which abrogated the states' Eleventh Amendment immunity under the Lanham Act, was unconstitutional, because the abrogation was not a proper exercise of Congress' Fourteenth Amendment enforcement powers; and (2) *Seminole Tribe* implicitly overruled the *Parden* doctrine, which allows for the constructive waiver of Eleventh Amendment immunity by a state engaging in an activity after Congress subjected it to suit arising from the activity. *See Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 84 S.Ct. 1207 (1964). The United States intervened on August 2, 1996, to defend the constitutionality of the Lanham Act's application to the states and thus does not take a position on CSB's other arguments.

With regard to the Lanham Act claim, the district court found that, after *Seminole Tribe*, the TRCA, as applied to the present case, was an unconstitutional attempt to abrogate the states' Eleventh Amendment immunity. The court concluded that inasmuch as this case does not involve a protected property interest, the enactment of the TRCA could not be a proper exercise of Congress' powers under section five, the enforcement section, of the Fourteenth Amendment. *See College Sav. Bank*, 948 F. Supp. at 426-27. The district court further held on two separate grounds that the *Parden* doctrine of constructive waiver did not permit CSB to sue Florida Prepaid in federal court. First, the district court found that the constructive waiver doctrine did not apply because Florida Prepaid was engaging in a core government function. *See id.* at 418. Second, the district court determined that the Supreme

Court's decision in *Seminole Tribe* implicitly overruled the *Parden* doctrine of constructive waiver. *See id.* at 420. Therefore, on either of these grounds, the district court held that *Parden* did not permit CSB's suit against Florida Prepaid in federal court. Finally, the district court rejected CSB's contention that Florida Prepaid had waived its immunity through its appearance in the litigation. *See id.* at 414. Thus, the district court granted Florida Prepaid's motion to dismiss the Lanham Act claim on December 13, 1996.

CSB appealed from the dismissal of the Lanham Act claim to this court.[2] We will affirm the district court's holding that the TRCA is an unconstitutional exercise of Congress' Fourteenth Amendment powers as applied to the present case, but we express no opinion on whether *Seminole* overruled *Parden*, because we hold that even if the *Parden* waiver doctrine is still viable, it does not apply to Florida Prepaid. Finally, we hold that Florida Prepaid did not waive its Eleventh Amendment immunity through its appearance in this litigation.

III. DISCUSSION

A. The Eleventh Amendment

The Eleventh Amendment provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

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[2] The district court denied Florida Prepaid's motion to dismiss the Patent Act claim in the same order of December 13, 1996, and subsequently Florida Prepaid appealed from the denial to the United States Court of Appeals for the Federal Circuit.

The Supreme Court has interpreted the amendment to prevent suits against unconsenting states in federal court. *See Seminole Tribe of Fla. v. Florida*, 116 S.Ct. at 1122. Because Florida Prepaid is an arm of the State of Florida, *see College Sav. Bank*, 948 F. Supp. at 413, the Eleventh Amendment is a potential bar to CSB's suit against Florida Prepaid. However, this protection available to states under the Eleventh Amendment can be circumvented if Congress properly abrogates the immunity, *see Seminole Tribe*, 116 S.Ct. at 1123, or if a state waives its immunity and consents to suit in federal court. *See Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 473-74, 107 S.Ct. 2941, 2946 (1987). CSB contends that there has been both abrogation and waiver in this case. We will consider each of these arguments in turn.

B. The TRCA's Abrogation of Eleventh Amendment Immunity

One of the main purposes of section 43 of the Lanham Act is to protect persons engaged in interstate commerce against unfair competition caused by false or misleading representations or advertising about goods, services, or commercial activities. *See* 15 U.S.C. § 1125(a)(1). Congress amended the Act in 1992 when it enacted the TRCA to clarify its intent to abrogate the Eleventh Amendment immunity of states in actions under the Lanham Act. *See* 15 U.S.C. § 1125(a). Congress passed the TRCA in response to *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 246, 105 S.Ct. 3142, 3149 (1985), which required Congress to give an explicit and unambiguous statement in a statute to manifest an intent to abrogate the states' immunity under the Eleventh Amendment. *See* S. Rep. No. 102-280, at 4-7 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3090-93. By enacting the TRCA, Congress intended to place states on an equal

footing with commercial competitors. *See id.* at 3093, 3095. Inasmuch as Florida Prepaid is an arm of the State of Florida, the TRCA by its terms, if valid, would abrogate Florida Prepaid's Eleventh Amendment immunity. *See College Sav. Bank*, 948 F. Supp. at 413. However, Florida Prepaid argues that the *Seminole Tribe* decision limiting the scope of Congress' powers to abrogate a state's Eleventh Amendment immunity renders the TRCA unconstitutional as applied in this case. We agree with this contention.

1. The *Seminole Tribe* Decision

In *Seminole Tribe*, the Court set forth a clear two-part standard of how Congress could abrogate the Eleventh Amendment immunity of states. *See id.* at 1123. The Court said that to find if there has been an abrogation a court must answer two questions affirmatively: "first, whether Congress has `unequivocally expresse[d] its intent to abrogate the immunity,' and second, whether Congress has acted `pursuant to a valid exercise of power.'" *Id.* (citations omitted).

a. Legislative Intent

Under the first question posed by *Seminole Tribe*, Congress must evidence an intent to abrogate the states' immunity from suit in federal court through a "clear legislative statement." *Id.* (quoting *Blatchford v. Native Village of Noatak*, 501 U.S. 775, 786, 111 S.Ct. 2578, 2584 (1991)). The TRCA surely manifests that intent. Section 1122, entitled "Liability of States, instrumentalities of States and State officials" provides:

> (a) Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other

> doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.
>
> (b) In a suit described in subsection (a) of this section for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity. . . .

15 U.S.C. § 1122. This language manifests Congress' unambiguous intent to abrogate the states' immunity. Therefore, the TRCA meets the first requirement of *Seminole Tribe* to find that Congress has abrogated the states' immunity.

b. Valid Exercise of Power

The second prong of *Seminole Tribe* requires that Congress act pursuant to a valid exercise of power. Prior to *Seminole Tribe*, the Supreme Court had determined that there were only two constitutional bases for Congress validly to abrogate the states' Eleventh Amendment immunity. First, in *Fitzpatrick v. Bitzer*, 427 U.S. 445, 96 S.Ct. 2666 (1976), the Court found that Congress could act pursuant to section five of the Fourteenth Amendment to abrogate states' immunity under the Eleventh Amendment. The Court reasoned that Congress had this power because the Fourteenth Amendment "had fundamentally altered the balance of state and federal power struck by the Constitution." *Seminole Tribe*, 116 S.Ct. at 1125.

Second, in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 109 S.Ct. 2273 (1989), "a plurality of the Court found that the Interstate Commerce Clause, Art. I, § 8, cl. 3, granted Congress the power to abrogate state sovereign immunity." *Seminole Tribe*, 116 S.Ct. at 1125. In *Seminole Tribe*, the Court was asked to find a third basis of authority for Congress to abrogate the states' Eleventh Amendment immunity – the Indian Commerce Clause. *See* U.S. Const. Art. 1, § 8, cl. 3. The Court held that the Indian Commerce Clause did not provide a basis for Congress to exercise that power. In fact, the Court overruled *Union Gas* by determining that the Commerce Clause itself did not provide a basis for Congress to abrogate the states' immunity under the Eleventh Amendment. *See Seminole Tribe*, 116 S.Ct. at 1128. Thus, since *Seminole Tribe* section five of the Fourteenth Amendment has been the sole basis for Congress to abrogate the states' immunity under the Eleventh Amendment. Accordingly, to meet the second prong of the *Seminole Tribe* test, the TRCA must have been enacted pursuant to this power.

2. The Fourteenth Amendment and the TRCA

The legislative history of the TRCA does not delineate conclusively the constitutional basis for its enactment. The only mention of Fourteenth Amendment authority is found in a brief notation in a Senate Report. *See* S. Rep. No. 102-280, at 8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3094 (stating that the TRCA "is justified under the Commerce Clause and the Fourteenth Amendment."). Yet this failure to explain fully the constitutional justification for its enactment does not invalidate the TRCA, for Congress is not required to discuss or explain explicitly the constitutional basis for laws that it enacts. *See, e.g., FCC v. Beach Communications, Inc.*, 508 U.S. 307, 315, 113 S.Ct. 2096, 2102 (1993) (holding that

a legislature is"never require[d] . . . to articulate its reasons for enacting a statute"); *EEOC v. Wyoming*, 460 U.S. 226, 243-44 n.18, 103 S.Ct. 1054, 1064 n.18 (1983).[3]

Furthermore, as the Court recently has stated, congressional enactments are accorded a "presumption of validity," because "[i]t is for Congress in the first instance to `determin[e] whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment,' and its conclusions are entitled to much deference." *City of Boerne v. Flores*, 117 S.Ct. 2157, 2172 (1997) (quoting *Katzenbach v. Morgan*, 384 U.S. 641, 651, 86 S.Ct. 1717, 1723-24 (1966)). However, "Congress' discretion is not unlimited" and courts must ensure that congressional acts do not overstep the boundaries of the Fourteenth Amendment. *Id.* at 2172. Therefore, while the brief statement of the constitutional foundation for the TRCA in the Senate Report is entitled to deference, it does not establish that the TRCA is constitutional. Consequently, we are obliged to examine the scope of the Fourteenth Amendment and determine whether the TRCA is valid under the amendment's enforcement section.

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[3] The Court in *EEOC v. Wyoming* stated:

> It is in the nature of our review of congressional legislation defended on the basis of Congress' powers under § 5 of the Fourteenth Amendment that we be able to discern some legislative purpose or factual predicate that supports the exercise of that power. That does not mean, however, that Congress need anywhere recite the words 'section 5' or 'Fourteenth Amendment' or 'equal protection for '[t]he . . . constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise.'

460 U.S. at 243-44 n.18, 103 S.Ct. at 1064 n.18 (citations omitted) (quoting *Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144, 68 S.Ct. 421, 424 (1948)).

The Due Process Clause of Fourteenth Amendment provides that no state shall "deprive any person of life, liberty, or property, without due process of law." U.S. CONST. amend. 14, § 1. Section five of the Fourteenth Amendment gives Congress the power "to enforce, by appropriate legislation, the provisions of this article." U.S. CONST. amend. 14, § 5. The Court long has recognized that Congress' power to legislate under section five is quite broad:

> Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain, and to secure to all persons the enjoyment of perfect equality of civil rights and the equal protection of the laws against State denial or invasion, if not prohibited, is brought within the domain of congressional power.

Ex Parte Virginia, 100 U.S. 339, 345-46 (1879). However, Congress' power under section five of the Fourteenth Amendment is not without boundaries. As the Court held in *Oregon v. Mitchell*, 400 U.S. 112, 91 S.Ct. 260 (1970):

> As broad as the congressional enforcement power is, it is not unlimited. Specifically, there are at least three limitations upon Congress' power to enforce the guarantees of the Civil War Amendments. First, Congress may not by legislation repeal other provisions of the Constitution. Second, the power granted to Congress was not intended to strip the States of their power to govern themselves . . . . Third, Congress may only 'enforce' the provisions of the amendments and may only do so by 'appropriate legislation.'

400 U.S. at 128-29, 91 S.Ct. at 266-67. The Court also recently has cautioned that "Congress does not enforce a constitutional right by changing what the right is. It has been given the power 'to enforce,' not the power to determine what constitutes a constitutional violation." *City of Boerne*, 117 S.Ct. at 2164. Therefore, while Congress has broad remedial power under the Fourteenth Amendment, it does not have a basis for enacting substantive, non-remedial measures.

Because of this limitation, for a law to be a valid mechanism to enforce the Due Process Clause, it must not create new substantive rights, but instead must provide a method of protecting against violations of those rights already extant. The Due Process Clause itself sets out the boundaries of what rights it protects: the conduct must involve action by a state; it must deprive an individual of life, liberty or property; and the deprivation must occur without due process of law. These three requirements are at the core of what the TRCA must remedy to be valid under the Fourteenth Amendment.

However, for the TRCA to be a valid enforcement of the Due Process Clause under section five, it does not need to protect only against constitutional violations. Rather, the TRCA can serve the broader purposes of the Due Process Clause. The Court in *City of Boerne*, reiterated this notion: 'Legislation [enacted under section five of the Fourteenth Amendment] which deters or remedies constitutional violations can fall within the sweep of Congress' enforcement power even if in the process it prohibits conduct which is not itself unconstitutional and intrudes into 'legislative spheres of autonomy previously reserved to the States.'" *Id.* at 2163 (quoting *Fitzpatrick v. Bitzer*, 427 U.S. at 455, 96 S.Ct. at 2671). Yet even though the violations against which it protects do not have to rise to the level of constitutional

violations, the TRCA must further the goals of protecting property from state action undertaken without due process of law, because the congressional enforcement power under the Fourteenth Amendment is not unlimited. *See City of Boerne*, 117 S.Ct. at 2163.

In deciding that the TRCA is not valid as applied in this case under the Fourteenth Amendment, the district court concluded that the case did not involve a property right; therefore, the TRCA did not further the purposes of the Fourteenth Amendment. *See College Sav. Bank*, 948 F. Supp. at 426-28. The district court first determined that the false advertising prong of the Lanham Act invoked by CSB "essentially protects the 'right to be free from false advertising.'" *Id.* at 426. This right, according to the district court, was not property for purposes of the Fourteenth Amendment; in fact, the district court could notfind any precedent "even discussing whether the right to be free of unfair competition is 'property.'" *Id.* at 426-27 n.27. The district court indicated that "we are unaware of any authority suggesting that Congress may, by simple fiat, abruptly declare that a simple statutory cause of action, which traditionally has not been understood to involve any kind of property, now encompasses a 'property right' to which the Fourteenth Amendment applies." *Id.* at 427. Therefore, according to the district court, because a property right was not involved, Congress did not have the power under the Fourteenth Amendment to enact the TRCA as it applied to this case.

In our examination of the TRCA, we, too, focus on the question of whether the TRCA protects a property right recognized under the Fourteenth Amendment. The tort of unfair competition created by the Lanham Act protects against certain harms involving improper interference with business prospects. *See* 15 U.S.C. § 1127; *see also AT & T Co. v.*

Winback and Conserve Program, Inc., 42 F.2d 1421, 1428 (3d Cir. 1994) (noting that the Lanham Act contains language that "'creates a federal cause of action for unfair competition.'") (citations omitted). CSB contends that this tort of unfair competition protects intangible property rights; therefore, the TRCA should be n to protect property as defined under the Fourteenth Amendment. The tort of unfair competition found in the Lanham Act does protect some intangible property rights, but no such intangible property is involved in the present case. *See* W. Page Keeton et al., *Prosser and Keeton on the Law of Torts* § 130, at 1015 (5th ed. 1984) (citing trade marks, copyrights, and patents as intangible property rights that the tort of unfair competition involves). Instead, CSB's Lanham Act claim concerns allegedly false statements about a competitor's own product. The only cognizable property right that could be involved would be a right to be free of false advertising, a right that is not an intangible property right protected under the Fourteenth Amendment.

The Supreme Court has recognized that the Fourteenth Amendment protects some categories of intangible property rights. *See, e.g., Tulsa Prof 'l Collection Ser v. Pope*, 485 U.S. 478, 485, 108 S.Ct. 1340, 1345 (1988) (in recognizing an unsecured claim against the estate, the Court wrote: "Little doubt remains that such an intangible interest is protected by the Fourteenth Amendment."); *Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 430, 102 S.Ct. 1148, 1155 (1982) ("[T]he types of interests protected as 'property' are varied and, as often as not, intangible, relating 'to the whole domain of social and economic fact.'") (citations omitted); *Paul v. Davis*, 424 U.S. 693, 710, 96 S.Ct. 1155, 1165 (1976) ("[T]here exists a variety of interests which are difficult of definition but are nevertheless comprehended within the meaning of either 'liberty' or 'property' as meant in the Due Process Clause.").

However, not all intangible rights have been deemed to be property under the Fourteenth Amendment, *see Paul v. Davis*, 424 U.S. at 712, 96 S.Ct. at 1166 (holding that a person's reputation was not intangible property covered by Fourteenth Amendment), and the right to be free from unfair advertising is not one of the protected property interests. While infringement on such a right might give rise to a cause of action, the right does not amount to "property" within the meaning of the Fourteenth Amendment.[4]

We also reject CSB's contention that the TRCA necessarily involves a protected property right under the Fourteenth Amendment on the basis that it attempts to protect businesses from harm. Clearly, a business is an established property right entitled to protection under the Fourteenth Amendment. *See, e.g., Duplex Printing Press Co. Deering*, 254 U.S. 443, 465, 41 S.Ct. 172, 176 (1920) (finding that a "business . . . is a property right, entitled to protection against unlawful injury or interference .. ."); *United States v. Tropiano*, 418 F.2d 1069, 1076 (2d Cir. 1969) ("The right to pursue a lawful business including the solicitation of

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[4] CSB asserts that the Supreme Court recognized that the tort of unfair competition involved protected intangible property rights in *International News Serv. v. Associated Press*, 248 U.S. 215, 236, 39 S.Ct. 68, 71 (1918) ("[T]he right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired. . . . It is this right that furnishes the basis of the jurisdiction in the ordinary case of unfair competition.") (citations omitted). However, the quoted language concerned the question of whether the courts should exercise equity jurisdiction over the dispute; the Court needed to determine if a right sufficient to sustain such jurisdiction had been violated and if a harm had occurred. Thus, while the opinion does discuss property rights and the tort of unfair competition, the Court did not determine whether the tortious actions injured a property right worthy of protection under the Fourteenth Amendment. The Court merely determined that an injury to a specific right had occurred.

customers necessary to the conduct of such business has long been recognized as a property right within the protection of the Fifth and Fourteenth Amendments to the Constitution.") (citations omitted); *Small v. United States*, 333 F.2d 702, 704 (3d Cir. 1964) ("The right to pursue a lawful business or occupation is a right of property which the law protects against intentional and unjustifiable interference. A cause of action based upon such an interference is analogous to one based upon unlawful interference with existing contracts, and is governed by the same principles.") (citations omitted). Nevertheless, while a business is a property right, the fact that CSB operates a business does not lead necessarily to the conclusion that the TRCA as applied in this case protects property rights.

For instance, in *Gentry v. Howard*, 365 F. Supp. 567 (W.D. La. 1973), an operator of an ambulance service sued the mayor of the City of Monroe in part on due process grounds, because the city began operating a competing ambulance service. The district court held that this action by the city did not amount to a due process violation, because no deprivation of property had occurred, within the meaning of the Fourteenth Amendment. Even though the city clearly was competing with the private business which suffered from this competition, this harm did not rise to the level of a deprivation of property under the Fourteenth Amendment. *See also Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170, 55 S.Ct. 7, 9 (1934) ("The Fourteenth Amendment does not protect a business against the hazards of competition."); *cf. Reich v. Beharry*, 883 F.2d 239, 242 (3d Cir. 1989) ("Every breach of contract by someone acting under color of state law [does not] constitute [ ] a deprivation of property for procedural due process purposes."). As *Gentry* illustrates, just because the state's actions impact on a private business does

not mean that this action somehow infringes on the Fourteenth Amendment rights of the private individual.

If a state's conduct impacting on a business always implicated the Fourteenth Amendment, Congress would have almost unrestricted power to subject states to suit through the exercise of its abrogation power. Congress could pass any law that tangentially affected the ability of businesses to operate and then create causes of action against the states in federal court if they infringed on those federally created rights. This result would be unacceptable and would conflict directly with the strict limits on Congress' powers to abrogate a state's Eleventh Amendment immunity. Thus, because this case does not involve a property interest protected by the Fourteenth Amendment, the TRCA, as applied in this case, is an unconstitutional exercise of Congress' powers.

We carefully have confined our discussion by holding that the TRCA is unconstitutional as applied "in this case." We have done so for two reasons. First, as the district court correctly noted, the false advertising prong of the Lanham Act implicated in this litigation is "separate and distinct from the trademark infringement prong." *College Sav. Bank*, 948 F. Supp. at 426 n.25. Second, the false advertising prong of the Lanham Act not only proscribes misrepresentations regarding a person's own goods or services, but it also forbids misrepresentations about a competitor's goods or services. 11 U.S.C. § 1125 (a)(1)(B). Since the present case only involves allegations that Florida Prepaid misrepresented its own product, the second part of the false advertising prong is not implicated. Therefore, because the scope of the allegations in this case is so narrow, we express no opinion as to whether the TCRA may be applied constitutionally in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services.

C. Constructive Waiver of Eleventh Amendment Immunity

CSB also contends that Florida Prepaid has constructively waived its Eleventh Amendment immunity on two different grounds: the *Parden* doctrine and the conduct of Florida Prepaid in this litigation. We reject each of these arguments.

1. The *Parden* Doctrine

The high point of Supreme Court jurisprudence of the doctrine of constructive consent was *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 84 S.Ct. 1207. *See* Erwin Chemerinsky, *Federal Jurisdiction* 408 (2d ed. 1994). In *Parden*, railroad workers sued a railroad, wholly owned and operated by the State of Alabama, to recover damages under the Federal Employers' Liability Act ("FELA"). *See* 377 U.S. at 184-85, 84 S.Ct. at 1209. Alabama defended the suit on the basis of the Eleventh Amendment. The Court focused on two questions: whether Congress intended the FELA to apply to the states, and whether it had the power to do so. First, by its language, the FELA applied to "every" common carrier. *Id.* at 187, 84 S.Ct. at 1210. The Court held that because Congress did not distinguish between state and privately operated common carriers, Congress must have intended the Act to apply to state operated common carriers. Turning to the second question, the Court held that the constitutional basis for the enactment of FELA was the Interstate Commerce Clause. *See id.* at 190-91, 84 S.Ct. at 1211-12. The Court then reasoned that because "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce," the clause could be used as a basis to waive a state's Eleventh Amendment immunity. *Id.* at 191, 84 S.Ct. at 1212. Because Alabama voluntarily had operated the railroad after the enactment of FELA, the Court held that the state had consented to the suit

in federal court under the Act. *See id.* at 192, 84 S.Ct. at 1213. Therefore, Alabama was deemed to have waived its Eleventh Amendment immunity in *Parden*.

In the years following *Parden*, the Court has modified and partially overruled it. The first significant modification occurred in *Employees of the Dep't of Pub. Health & Welfare v. Dep't of Pub. Health & Welfare*, 411 U.S. 279, 93 S.Ct. 1614 (1973). That case involved a suit by state hospital and training school employees for overtime compensation under the Fair Labor Standards Act ("FLSA"). *See id.* at 280-81, 93 S.Ct. at 1616. The State of Missouri defended the suit on Eleventh Amendment grounds, and the Court applied the same two-part test found in *Parden*. First, it found that Congress clearly intended to bring employees of "hospitals and related institutions" under the Act. *Id.* at 283, 93 S.Ct. at 1617. Second, the Court recognized that the basis for the enactment of the FLSA was the Interstate Commerce Clause. *See id.* at 282, 93 S.Ct. at 1617. However, the Court distinguished *Parden* from *Employees*. The Court explained that the State of Alabama in *Parden* was involved in an "area where private persons and corporations normally ran the enterprise." *Id.* at 284, 93 S.Ct. at 1617. In *Employees* the institutions were state hospitals and training schools which were not operated for profit, and instead were of an integral state concern. *See id.* Because of their importance to the state government, the Court found that Congress could not abrogate Missouri's Eleventh Amendment immunity under the FLSA in that case. In *Employees*, therefore, the Court created the important government function exception to *Parden*. Under this exception, a state cannot be deemed to have waived its immunity if it is engaged in an important or core government function.

The Court restricted the scope of *Parden* further in *Edelman v. Jordan*, 415 U.S. 651, 94 S.Ct. 1347 (1974). In challenging Illinois' administration of the Aid to the Aged, Blind, and Disabled ("AABD") welfare program, the plaintiffs in that class action asserted that officials from the State of Illinois had waived the state's Eleventh Amendment immunity in welfare suits by participating in and receiving funds from the federal welfare program. Stressing that "[c]onstructive consent is not a doctrine commonly associated with the surrender of constitutional rights," the Court held that "[t]he mere fact that a State participates in a program through which the Federal Government provides assistance for the operation by the State of a system of public aid is not sufficient to establish consent on the part of the State to be sued in the federal courts." *Id.* at 673, 94 S.Ct. at 1360-61. Thus, the Court rejected the waiver argument in that case.

In 1987, the Court again pared back *Parden* in *Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 107 S.Ct. 2941. In *Welch*, an employee of the Texas Department of Highways and Public Transportation filed suit under the Jones Act against the state and the department to recover damages for injuries she incurred while working on a ferry dock. *See id.* at 470-71, 107 S.Ct. at 2944. The Jones Act remedies were available to "[a]ny seaman who shall suffer personal injury in the course of his employment." The employee argued that the State of Texas was an employer within this section. *Id.* at 475, 107 S.Ct. at 2947. In considering whether Congress intended to apply the Act to the states, the Court found that the line of cases it had decided since *Parden* "required an unequivocal expression that Congress intended to override Eleventh Amendment immunity. Accordingly, to the extent that Parden v. Terminal Railway, . . . is inconsistent with the requirement that an abrogation of Eleventh Amendment immunity by Congress

must be expressed in unmistakably clear language, it is overruled." *Id.* at 478, 107 S.Ct. at 2948 (citations omitted). Thus, the Court changed the first prong of the *Parden* test to require a clear statement of congressional intent. Because it found no such intent in the Jones Act, the Court declined to hold that Texas had waived its immunity.

Therefore, the *Parden* doctrine holds that a state's Eleventh Amendment immunity can be constructively waived if: (1) Congress enacts a law providing that a state will be deemed to have waived its Eleventh Amendment immunity if it engages in the activity covered by the federal legislation; (2) the law does so through a clear statement that gives notice to the states; (3) a state then engages in that activity covered by the federal legislation; and (4) the activity in question is not an important or core government function.

In the present case, at least assuming that CSB can establish the elements of its case, the first three requirements of the *Parden* doctrine clearly have been or will be met. Although the TRCA does not mention specifically prepaid tuition programs, the Act declares that if a state or its instrumentality chooses to engage in a proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act. *See* 15 U.S.C. § 1122. Moreover, Florida Prepaid continued its operations after the enactment of the TRCA. However, even though the first three requirements may be met, if the important government function exception applies to the present case, Florida Prepaid's activities would not waive its Eleventh Amendment immunity.

The district court determined that Florida Prepaid served a "role traditionally undertaken by state governments – making available education opportunities," and thus the *Parden* doctrine could not be applied as a basis for a

conclusion that Florida Prepaid's activities waived its Eleventh Amendment immunity. *College Sav. Bank*, 948 F. Supp. at 416. The district court recognized that Florida Prepaid does compete with private businesses, such as CSB, to provide prepaid tuition plans, but found that factor not to be dispositive. Instead, the district court focused on the benefits that Florida Prepaid provides to the education of Florida citizens. *See id.* at 417. Because Florida Prepaid directly furthers the goal of education by providing a system of financing for college and university education, the district court found that Florida Prepaid serves an important government function. We agree with the district court's determination and conclude that Florida Prepaid is engaged in an important governmental function; therefore, the *Parden* doctrine of waiver does not apply to the present case.

Education is a core function of a state government. *See Brown v. Board of Educ.*, 347 U.S. 483, 493, 74 S.Ct. 686, 691 (1954) ("Today, education is perhaps the most important function of state and local governments."). The Appellants do not dispute that education is an important government function. Instead, they seek to distinguish the goal of education from the function that Florida Prepaid performs. They argue that Florida Prepaid does not provide education directly; instead, it provides a means through which individuals can save for the costs of college tuition with an investment program. According to the Appellants, individuals traditionally have used a variety of investments to fulfill this purpose, and Florida Prepaid can be seen as merely an additional, competing means to meet the costs of college.

We reject the Appellants' narrow conception of education as a core government function. Education encompasses more than classroom teaching; instead, the core function of education can include the provision of education-related

services as well as direct classroom teaching. *See, e.g., Skehan v. State Sys. of Higher Educ.*, 815 F.2d 244, 249 (3d Cir. 1987) (holding that the Pennsylvania State System of Higher Education is a state agency entitled to Eleventh Amendment immunity). Furthermore, in addition to states providing elementary and secondary schools for their citizens, they also long have provided facilities for college and graduate levels of education. In providing these higher levels of education, states routinely have charged discounted tuition fees to their own citizens. Yet even with such discounts, the cost of education can be prohibitive. The sole purpose of Florida Prepaid is to help individuals meet this expense of higher education. *See* Fla. Stat. ch. 240.551(1) (1997). As the statute creating the Florida Prepaid Postsecondary Education Expense Program states:

> The Legislature recognizes that education opportunity at the postsecondary level is a critical state interest. it further recognizes that educational opportunity is best ensured through the provision of postsecondary institutions that are geographically and financially accessible. Accordingly, it is the intent of the Legislature that a program be established through which many of the costs associated with postsecondary attendance may be paid in advance . . . .

Id.

Although private businesses such as CSB operate similar programs, Florida Prepaid nevertheless serves the goal of ensuring that higher education is affordable to all of its citizens. Merely because the state competes with private enterprises does not mean that it is not performing a core government function. For instance, even in the context of classroom education, private schools operate on a competitive

basis with public schools on all levels: elementary, high school, and university.

The Florida legislature specifically authorized and created Florida Prepaid to facilitate the education of its citizens. The core government function of education does not necessarily only embody the actual teaching of individuals; it is a broader function which can incorporate actions that involve related aspects to this overall goal.[5] Florida Prepaid serves the important government interest of education by making it affordable to its citizens; therefore, the *Parden* doctrine does not apply to the present case and does not supply a basis for a conclusion that Florida Prepaid has waived its Eleventh Amendment immunity.

As we have indicated, Florida Prepaid has argued and the district court has held that *Seminole Tribe* implicitly overruled *Parden*. *See College Sav. Bank*, 948 F. Supp. at 420. We, however, do not reach this difficult question because we have no need to do so. In our view, a court of appeals should be reluctant to hold that the Supreme Court implicitly has

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[5] In addressing a similar issue, the Court of Appeals for the Sixth Circuit has decided that an educational trust fund operated by the State of Michigan performs a public function. *See Michigan v. United States*, 40 F.3d 817 (6th Cir. 1994). The Michigan Educational Trust is a state agency created to enter into advance tuition payment contracts with individuals to provide tuition prepayments for college education. *See id.* at 820-21. In determining whether the entity is subject to tax by the United States, the court of appeals concluded that:

> [E]ncouraging higher education by helping provide the means for attendance at Michigan's public colleges and universities – the basic function for which the education trust was established by the Michigan legislature – is at least as much a 'public function' as building and operating bridges and tunnels.

Id. at 825. Based on this conclusion, the court held that the entity has tax-exempt status. *See id.* at 829.

overruled its own decision when the Court had an opportunity to overrule the decision explicitly and did not do so. Thus, we view our methodology as in keeping with the respect which we must pay to the Supreme Court.

2. Waiver of Immunity by Conduct in Litigation

Finally, CSB contends that Florida Prepaid has waived its Eleventh Amendment immunity through its appearance in this litigation, by filing a counterclaim, and by failing initially to raise its Eleventh Amendment immunity defense. The district court rejected this argument and found that Florida Prepaid did not waive its immunity defense. *See College Sav. Bank*, 948 F. Supp. at 414. We will affirm the district court's determination of this matter and hold that Florida Prepaid raised its defense in a timely manner.

A state can waive an Eleventh Amendment immunity defense through a voluntary appearance in litigation against it in federal court. *See Clark v. Barnard*, 108 U.S. 436, 447-48, 2 S.Ct. 878, 883 (1883). In determining whether there has been a waiver, courts have examined the extent to which a state has participated in the lawsuit and whether it has defended the case on its merits. *See Fordyce v. Seattle*, 55 F.3d 436, 441 (9th Cir. 1994) (holding that a state could waive immunity by a voluntary appearance and defense on the merits); *Hankins v. Finnel*, 964 F.2d 853, 856 (8th Cir. 1992) (recognizing the possibility of waiver through an appearance and defense on the merits); *995 Fifth Ave. Assoc., L.P. v. New York State Dep't of Taxation and Fin.*, 963 F.2d 503, 507-08 (2d Cir. 1992) (holding New York's immunity to be waived through its participation in the lawsuit); *Paul N. Howard Co. v. Puerto Rico Aqueduct Sewer Auth.*, 744 F.2d 880, 886 (1st Cir. 1984) (finding a waiver of immunity by a party's appearance and filing of a counterclaim and a third-party complaint); *Vecchione v. Wohlgemuth*, 558 F.2d

150, 158-59 (3d Cir. 1977) (holding a state to have waived immunity by not raising the issue until after the final judgment).

Florida Prepaid's participation in this litigation did not waive its Eleventh Amendment immunity. Because the immunity issue "sufficiently partakes of the nature of a jurisdictional bar," *Edelman v. Jordan*, 415 U.S. at 678, 94 S.Ct. at 1363, it is an issue that may be raised at any time during the pendency of the case. *See Florida Dep't Of State v. Treasure Salvors, Inc.*, 458 U.S. 670, 683 n.18, 102 S.Ct. 3304, 3314 n.18 (1982). Merely because a state appears and offers defenses on the merits of the case, it does not automatically waive Eleventh Amendment immunity. *See id.*; *see also Ford Motor Co. v. Dep't of Treasury of State of Ind.*, 323 U.S. 459, 466-67, 65 S.Ct. 347, 351-52 (1945) (considering Eleventh Amendment immunity for the first time on appeal); *Mascheroni v. Board of Regents of the Univ. of Cal.*, 28 F.3d 1554, 1560 (10th Cir. 1994) (holding that a state does not waive immunity merely by its appearance in a suit).

The critical reason behind Florida Prepaid's delay in asserting an Eleventh Amendment defense was the timing of the Supreme Court's decision in *Seminole Tribe*. At the beginning of the litigation, the abrogation rule of *Union Gas* precluded an Eleventh Amendment immunity defense by Florida Prepaid.[6] However, with *Seminole Tribe*, the

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[6] The constitutionality of the TRCA was not in question prior to *Seminole Tribe*, because the TRCA and the underlying Lanham Act had clear foundations in the Commerce Clause. *Union Gas* had permitted Congress to abrogate states' immunity to suit in federal court on Commerce Clause grounds. With *Seminole Tribe*, this basis was eliminated and the only foundation for abrogation by Congress is section five of the Fourteenth Amendment.

successful assertion by Florida Prepaid of an immunity defense became a reasonable possibility. Therefore, following that decision, Florida Prepaid asserted its Eleventh Amendment immunity.[7] Given this change in the law and the precedent for allowing participation in lawsuits without waiving the immunity, we determine that Florida Prepaid did not waive its Eleventh Amendment immunity through its participation in this litigation.

IV. CONCLUSION

We will affirm the district court's dismissal of CSB's Lanham Act claim by order entered December 16, 1996. Although congressional actions are entitled to much deference, Congress cannot usurp the powers of the states. The Supreme Court in *Seminole Tribe* placed clear limitations on Congress' power to abrogate a state's Eleventh Amendment immunity; the TRCA exceeds these restrictions as applied to the present case, and thus we conclude that it is unconstitutional. Furthermore, we will affirm the district court's determination that Florida Prepaid did not waive its immunity either under *Parden* or through its participation in this litigation. Therefore, because the Eleventh Amendment applies to bar this lawsuit against Florida Prepaid in federal court, we will affirm the district court's dismissal of CSB's Lanham Act suit in its entirety.

A True Copy:
Teste:

Clerk of the United States Court of Appeals
for the Third Circuit

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[7] The Supreme Court decided *Seminole Tribe* on March 27, 1996. Florida Prepaid first informed the district court of its intention to move for dismissal on Eleventh Amendment grounds on April 8, 1996. *See* Appellee's br. at 39 n.16.

APPENDIX B

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

COLLEGE SAVINGS BANK,

Plaintiff,

and

UNITED STATES OF AMERICA,

Intervenor-Plaintiff,

-v-

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD,

Defendant.

Civ. No. 95-4516 (GEB), Civ. No. 94-5610 (GEB)
December 13, 1996, Decided

MEMORANDUM OPINION

GARRETT E. BROWN, JR., District Judge

This matter comes before the Court on the motions of defendant, Florida Prepaid Postsecondary Education Expense Board, to dismiss plaintiff's Patent Act Claim (Civ. No. 94-5610) and Lanham Act Claim (Civ. No. 95-4516) pursuant to FED. R. CIV. P. 12(h)(3). For the reasons set forth herein, the Court will grant defendant's motion to dismiss the Lanham Act Claim and deny defendant's motion to dismiss the Patent Act Claim.

I. BACKGROUND

A. The Parties

Plaintiff College Savings Bank ("CSB") is a New Jersey chartered savings bank located in Princeton, New Jersey. CSB alleges that since September, 1987, it has engaged in the business of selling CollegeSure® CD, a deposit contract administered according to a patented method and intended to provide a return adequate to satisfy college education expenses, even though those expenses are presently unknown.[1] *See* Patent Act Compl. ¶ 3.

Defendant Florida Prepaid Postsecondary Expense Board ("Florida Prepaid") is a body corporate of the State of Florida, created by FLA. STAT. at 240.551 to manage and operate the Florida Prepaid Postsecondary Education Expense Program

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[1] U.S. Patent No. 4,722,055 ("the '055 patent") was granted to CSB on January 26, 1988. The '055 patent, entitled "Methods and Apparatus for Funding Liability of Uncertain Costs," provides a method "for implementing an insurance investment program which provides an investor a future return adequate to pay the cost of a college education for his beneficiary (*e.g.*, a child, grandchild, etc.) in return for a present investment determined on the basis of current college cost data and projections of the rate of increase of college costs." See The '055 Patent-Summary of the Invention, attached to Plaintiff's Patent Act Complaint as Exh. A.

(the "Program").[2] Like CSB, Florida Prepaid agrees to provide a return for the money invested that is guaranteed to be adequate to meet payouts required to fund the uncertain cost of a college education at specified dates in the future.[3] Florida Prepaid has administered a tuition prepayment program since September, 1988.

B. The Claims

1. The Patent Act Claim

On November 7, 1994, CSB brought an action against Florida Prepaid for allegedly infringing CSB's '055 patent. Specifically, CSB avers, in pertinent part, that:

> 6. Defendant Florida Prepaid has been and still is directly infringing, actively inducing the infringement of, or contributing to the infringement of, the '055 patent by making, using, or selling in this Judicial District and elsewhere, contracts

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[2] The Program is open to "qualified beneficiaries," defined to be:

(1) a resident of Florida at the time a purchaser enters into an advance payment contract on behalf of the resident;

(2) a non-resident who is the child of a non-custodial parent who is a resident of Florida at the time such parent enters into an advance payment contract on behalf of the child; or

(3) a graduate of an accredited high school in Florida who is a resident of Florida at the time he/she is designated to receive the benefits of the advance payment contract. FLA. STAT. § 240.551(2)(e)(1)-(3).

[3] Tuition for Florida State postsecondary education institutions is controlled by the Florida Legislature. Pursuant to FLA. STAT. § 240.209 and § 240.35, tuition is set by the State Board of Regents or the State Board of Community Colleges. *See* Declaration of William W. Montjoy ¶ 28, submitted in support of Florida Prepaid's Motion to Dismiss Plaintiff's Patent Act and Lanham Act Claims ("Montjoy Decl.").

> administered in accordance with a method to provide a return adequate to meet payouts for funding the uncertain cost of a college education at a future date.
>
> 7. Defendant Florida Prepaid with actual knowledge of the '055 patent, with knowledge of its infringement, and without lawful justification, has willfully infringed the '055 patent.

Patent Act Compl. ¶¶ 6-7. Thus, CSB contends that the manner in which Florida Prepaid performs its obligations under its college prepayment contracts – that is, the data processing apparatus and methods that Florida Prepaid uses – directly infringes CSB's patent under 35 U.S.C. at 271.

2. The Lanham Act Claim

On August 25, 1995, CSB filed a complaint against Florida Prepaid alleging violations of Section 43(a) of the Lanham Act, 15 U.S.C. at 1125(a), and the common law tort of unfair competition. CSB asserts that its efforts to sell investment contracts have been hurt by "false and misleading claims that Florida Prepaid has made in its promotional materials." Lanham Act Compl. ¶ 11. Specifically, CSB alleges that defendant falsely represented the Florida Prepaid program in the following respects: (1) that the State of Florida guarantees all contract beneficiaries to have the full amount necessary to fund a college education at a participating college or university, *id.* ¶ 14; (2) that any tax liability on a Florida Prepaid contract is deferred until the student reaps the benefits of the contract, *i.e.*, is enrolled at college, *id.* ¶ 22; (3) that Florida Prepaid's investments are backed by the "full faith and credit" of the United States, *id.* ¶¶ 30-32; and (4) that defendant failed to disclose, in its 1995 Annual Report, the existence of CSB's patent infringement action against it. *Id.* ¶¶ 37-39.

3. The Counterclaims

In response to CSB's Patent Act Claim, Defendant filed a counterclaim seeking a declaration from this Court that CSB's '055 patent is invalid, unenforceable, and void. Moreover, with respect to plaintiff's Lanham Act Claim, defendant filed counterclaims alleging defamation, product disparagement and trade libel. These counterclaims are centered on a statement made by Peter Roberts, the President and Chief Financial Officer of CSB, as quoted and printed in the September 13, 1995 edition of the Miami Daily Business Review, shortly after CSB filed the Lanham Act Claim. Commenting on the representations Florida Prepaid makes in the promotion of its deposit contract program, Mr. Roberts stated: "At best those claims are half-truths, and at worst they're outright lies." *See* Stan Yabaro, PREPAID COLLEGE PLAN FACES NEW SUIT FROM RIVAL, MIAMI DAILY BUS. REV., Sept. 13, 1995, at A1, A7, attached to Florida Prepaid's Lanham Act Answer, Affirmative Defenses and Counterclaims as Exh. C.

C. Procedural History

On March 23, 1995, Florida Prepaid filed a motion to dismiss the Patent Act Claim or, in the alternative, to transfer the action to the Northern District of Florida. Defendant alleged that CSB's Patent Act Claim failed to state a claim actually using or selling the method patented by CSB. *See* Florida Prepaid's Brief in Support of its Motion to Dismiss or Transfer Venue at 5. Therefore, defendant argued, the Patent Act Claim should be dismissed pursuant to FED. R. CIV. P. 12(b)(6). In the alternative, Florida Prepaid argued that the patent action should be transferred to the Northern District of Florida in view of *forum non-conveniens* issues. *Id.* at 7.

On May 4, 1995, this Court denied defendant's motions. Specifically, we found that

> the complaint, as reasonably read, alleges the defendant has infringed the '055 patent by using the methods and apparatus patented therein to fulfill its obligation to purchasers of the contract. That easily satisfies the standard articulated in Rule 8(a).
>
> Paragraph 6 of the complaint alleges the defendant is infringing the patent by selling contracts performed and effectuated by use of the claims of the '055 patent. While one could interpret the paragraph as complaining of the sale of contracts, it also clearly alleges that the defendant, to perform its obligations under the contract, utilized the methods covered by the '055 patent. In this regard, it is useful to remember that a contract is a promise or set of promises for the breach of which the law gives a remedy or the performance of which the law, in some way, recognizes as a duty.
>
> The bargained for exchange here is that the defendant's contracts allegedly memorialize that in return for the purchaser's investment, Florida Prepaid will somehow provide a return sufficient to satisfy the presently unknown financial liabilities of a college education. Inherent in that allegation, is that the defendant necessarily employs the methods covered by the '055 patent to fulfill its performance. The complaint recognizes this in paragraph 6, as evidenced by its own terms, and its close tracking of the claims of the '055 patent. I will deny the motion to dismiss.

See May 4, 1995 Transcript of Motion at 8-9, *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd., Civ.* No. 94-5610 (D.N.J. May 4, 1995) (GEB). Moreover, the Court was unpersuaded by defendant's *forum non conveniens* argument because, *inter alia*: (1) the defendant maintained significant contacts with New Jersey; (2) the median trial time at the time of the motion was significantly longer in the Northern District of Florida than in the District of New Jersey; and (3) most of Florida Prepaid's third-party agents who sell contracts and conduct other activities reside outside of Florida. *Id.* at 17-19. An Order denying defendant's motions was entered on May 5, 1995.

More than eight months later, on February 9, 1996, CSB filed a motion to dismiss Florida Prepaid's counterclaims for defamation, product disparagement and trade libel. CSB argued that Florida Prepaid, as a state agency, could not maintain an action for libel or defamation based on statements critical of government operations because such speech is protected by the Free Speech Clause of the First Amendment to the United States Constitution. *See College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 919 F. Supp. 756, 758 (D.N.J. Mar. 22, 1996) (GEB) ("*College Savings I*"). CSB also contended that Roberts's statement was privileged speech because it commented on a judicial proceeding or a matter that is of public interest. *Id.*

By Memorandum Opinion and Order dated March 22, 1996, this Court granted plaintiff's motion to dismiss defendant's Lanham Act counterclaims after concluding that a government agency, such as Florida Prepaid, could not maintain an action for libel or defamation, regardless of whether that agency is acting in a proprietary capacity. *Id.* at 760. We also noted that "[a] contrary holding would leave open the possibility that a government agency could file a

civil action alleging defamation with malice, and thereby employ its potentially vast resources to chill speech in any number of contexts and regardless of the speaker's actual intent." *Id.* (citing *New York Times Co. v. Sullivan*, 376 U.S. 254, 297, 11 L. Ed. 2d 686, 84 S. Ct. 710 (1964) (Black, J., concurring)). Finally, this Court determined that the common law distinction between product disparagement and trade libel on the one hand, and defamation on the other hand, was irrelevant for purposes of plaintiff's motion because Roberts's statement addressed a matter of public concern. 919 F. Supp. at 761-63.

D. Statutory History

Florida Prepaid challenges the constitutionality of certain provisions of the Patent Act and the Lanham Act. The Patent Act, first enacted in 1790, grants and protects an inventor's right of exclusion for a certain period. *See* Act of April 10, 1790, ch. VII, 1 Stat. 109; *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480, 40 L. Ed. 2d 315, 94 S. Ct. 1879 (1974). The Lanham Act was enacted in 1946. *See* Act of July 5, 1946, ch. 540, 60 Stat. 427. It is intended, among other things, to protect those engaged in commerce against unfair competition. *See* 15 U.S.C. at 1127.

In 1992, the Congress enacted amendments to the Patent Act and the Lanham Act to make clear that state governmental entities must abide by these statutes. *See* Patent and Plant Variety Protection Remedy Clarification Act, Pub.L. No. 102-560, 106 Stat. 4230 (1992); Trademark Remedy Clarification Act, Pub.L. No. 102-542, 106 Stat. 3567 (1992). Both enactments provide that no state or state instrumentality is immune from suit under the Eleventh Amendment for violations of these statutes. *See* Pub.L. No. 102-560, at 2(a)(2), 106 Stat. at 4230 (codified at 35 U.S.C.

§ 296(a)); Pub.L. No. 102-542, § 3(b), 106 Stat. at 3567 (codified at 15 U.S.C. § 1122(a)).

The 1992 amendments were considered necessary because of *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 87 L. Ed. 2d 171, 105 S. Ct. 3142 (1985), which held that congressional intent to abrogate state immunity must be explicitly and unambiguously stated in the statute itself, *see Id.* at 246 and because of later decisions that relied on *Atascadero*. *See* S. Rep. No. 102-280, 102d Cong., 2d Sess. 4-7 (1992), reprinted in 1992 U.S.C.C.A.N. 3087, 3090-93. The Congress noted that, under those court decisions, the protection afforded by the Patent Act and the Lanham Act "depended on the status of the infringed party" – that is, whether the party was a state actor. *See Id.* at 9. The amendments were enacted to eliminate this "inherent inequity" and to provide "uniform protection" to patent holders and competitors. *See Id.* at 7, 9.

E. The *Seminole Tribe* Decision

In 1992, the State of Florida was sued in federal court for violating the Indian Gaming Regulatory Act ("IGRA"), Pub.L. No. 100-497, 102 Stat. 2467 (1988). *Seminole Tribe of Florida v. Florida*, 801 F. Supp. 655, 656 (S.D. Fla. 1992), *rev'd*, 11 F.3d 1016 (11th Cir. 1994), aff'd, 134 L. Ed. 2d 252, 116 S. Ct. 1114 (1996). Under IGRA, which was passed pursuant to the Indian Commerce Clause, art. I, § 10, cl. 3 of the Constitution, an Indian tribe may sue the state in federal court if the state refused to negotiate in good faith with the tribe over the establishment of a "compact" to permit gaming on the reservation. 25 U.S.C. § 2710(d)(7). Florida and its individually named governor moved to dismiss the action for lack of subject mater jurisdiction, challenging the constitutionality of the Act under the Eleventh Amendment.

Following a denial of that motion by the district court, the Eleventh Circuit reversed, holding that the Indian Commerce Clause did not grant Congress the authority to abrogate sovereign immunity.[4] *Seminole Tribe of Florida v. Florida*, 11 F.3d at 1016, 1025-28 (11th Cir. 1994), *aff'd*, 134 L. Ed. 2d 252, 116 S. Ct. 1114 (1996). That court further held that the doctrine of *Ex Parte Young*, 209 U.S. 123, 52 L. Ed. 714, 28 S. Ct. 441 (1908), did not authorize suit against the governor in his individual capacity. 11 F.3d at 1029.

The Supreme Court granted certiorari in order to consider: (1) whether the Eleventh Amendment prevents Congress from authorizing suits by Indian tribes against States for prospective injunctive relief to enforce legislation enacted pursuant to the Indian Commerce Clause; and (2) whether the doctrine of *Ex Parte Young* allows suits against the state's governor for prospective injunctive relief to enforce provisions of a statute. 116 S. Ct. at 1122. In a majority decision written by Chief Justice Rehnquist, and joined by Justices O'Connor, Scalia, Kennedy and Thomas, the Supreme Court affirmed the Eleventh Circuit's dismissal of the petitioner's suit, holding that despite Congress's clear

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[4] The Eleventh Circuit rejected the plaintiff's assertion that IGRA was passed not only pursuant to the Indian Commerce Clause, but also pursuant to Section 5 of the Fourteenth Amendment and the Commerce Clause. 11 F.3d at 1025. Specifically, the court found that "IGRA does not create an entitlement to operate gambling operations; rather, it establishes the process and standards by which gambling may be conducted on Indian lands. Thus, IGRA creates no liberty or property interests and cannot implicate the Fourteenth Amendment." *Id.* The court also excluded the possibility that Congress enacted IGRA under the Interstate Commerce Clause. *Id.* at 1026 ("In analyzing Congress' goals, it is clear that alleviating a supposed burden on interstate commerce was not among them.").

intent to abrogate sovereign immunity as evidenced by the language of the statute itself, the Indian Commerce Clause does not grant Congress the power to abrogate a state's immunity without its consent. [5] *Id.* at 1131-32.

In reaching this conclusion, the *Seminole Tribe* majority noted that two questions must be answered to determine if Congress has abrogated the states' immunity from suit: "first, whether Congress has 'unequivocally expressed its intent to abrogate the immunity,' and second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Id.* at 1123. The Court indicated that it was "unmistakably clear" that Congress intended to abrogate Eleventh Amendment immunity in enacting IGRA. [6] *Id.* at 1124. With respect to the second prong of the analysis, however, the Court concluded that Congress had no power to abrogate Eleventh Amendment immunity under the Indian Commerce Clause. *Id.* at 1130. The Court noted that authority to abrogate had been found under only two constitutional provisions in prior decisions: the Fourteenth Amendment, *see Fitzpatrick v. Bitzer*, 427 U.S. 445, 49 L. Ed. 2d 614, 96 S. Ct. 2666 (1976), and the

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[5] The Court also ruled that the doctrine of *Ex Parte Young* could not be used to enforce the Act against a state official such as the governor. *Id.* at 1133. Specifically, the Court held that "where Congress has prescribed a detailed remedial scheme for the enforcement against a State of a statutorily created right, a court should hesitate before casting aside those limitations and permitting an action against a state officer based upon Ex Parte Young." *Id.* at 1132. Because Congress, in enacting IGRA, "chose to impose upon the State a liability which is significantly more limited than would be the liability imposed upon the state officer under *Ex Parte Young*," the Court found that *Ex Parte Young* was inapplicable. *Id.* at 1133.

[6] The petitioner in *Seminole Tribe* did not challenge the Eleventh Circuit's conclusion that IGRA was not passed pursuant to the Fourteenth Amendment or the Interstate Commerce Clause.

Interstate Commerce Clause, *see Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 105 L. Ed. 2d 1, 109 S. Ct. 2273 (1989). *Id.* at 1124-25. The *Seminole Tribe* Court determined that the plurality decision in *Union Gas* should be overruled because it was wrongly decided.[7] 116 S. Ct. at 1128-29. Accordingly, the Court concluded that the Indian Commerce Clause, which is indistinguishable from the Interstate Commerce Clause for purposes of abrogation, did not allow Congress to strip the states of their Eleventh Amendment immunity in the enactment of IGRA. *Id.* at 1131-32.

F. The Present Motions

Less than two months after the United States Supreme Court announced its decision in *Seminole Tribe*, Florida Prepaid filed the instant motions to dismiss CSB's Patent Act Claim and Lanham Act Claim. Essentially, Florida Prepaid asserts that CSB's claims must fail because: (1) to the extent that Congress amended the statutes in question pursuant to one or more of its Article I powers, such amendments are unconstitutional in the wake of *Seminole Tribe*; and (2) to the extent that Congress amended the statutes in question pursuant

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[7] The *Seminole Tribe* Court reasoned that when Union Gas was decided, the Eleventh Amendment already was well understood to limit the federal courts' jurisdiction under Article III. In overruling Union Gas, the Court reconfirmed that the background principle of state sovereign immunity embodied in the Eleventh Amendment is not so ephemeral as to dissipate when the subject of the suit is an area, like the regulation of Indian Commerce, that is under the exclusive control of the Federal Government. Even when the Constitution vests in Congress complete lawmaking authority over a particular area, the Eleventh Amendment prevents congressional authorization of suits by private parties against unconsenting States. The Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction. 116 S. Ct. at 1131-32.

to Section 5 of the Fourteenth Amendment, these amendments are not "appropriate legislation" because they are not aimed at remedying the types of actions expressly prohibited by the Fourteenth Amendment's substantive provisions.

This Court certified Florida Prepaid's constitutional challenges to the Attorney General under 28 U.S.C. § 2403(a) and Rule 32A of the General Rules of the District of New Jersey. Upon request of the Department of Justice, the Court filed Orders on July 30 and August 2, 1996, making the United States an Intervenor in these actions.

In response to Florida Prepaid's motions, both CSB and the Intervenor assert that: (1) Florida Prepaid has waived any Eleventh Amendment immunity it may have been entitled to by engaging in the interstate marketing and administration of its investment contracts after Congress indicated that such activity would subject it to suit in federal court (*i.e.*, the doctrine of constructive waiver set forth in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 12 L. Ed. 2d 233, 84 S. Ct. 1207 (1964)); and (2) the 1992 amendment to the Patent Act is a valid exercise of federal authority under Section 5 of the Fourteenth Amendment, thereby abrogating the states' Eleventh Amendment immunity from suit under that statute.

In addition, CSB has raised – and the Intervenor has expressly declined to take a position with respect to – the following arguments: (1) Florida Prepaid is not an "alter ego" or "arm of the state" of Florida and, therefore, is not entitled to Eleventh Amendment immunity; and (2) even assuming that Florida Prepaid is entitled to sovereign immunity, (a) defendant has waived its immunity through its actions in these lawsuits; and (b) the 1992 amendment to the Lanham Act is a valid exercise of federal authority under Section 5 of the

Fourteenth Amendment, thereby abrogating the states' Eleventh Amendment immunity from suit under that statute.[8]

II. DISCUSSION

A. STANDARD FOR A MOTION TO DISMISS

Rule 12(b)(1) concerns a federal court's "lack of jurisdiction over the subject matter." FED. R. CIV.P. 12(b)(1). Because "federal courts are courts of limited jurisdiction," they have power to adjudicate "only those cases within the bounds of Article III and the United States Constitution and Congressional enactments stemming therefrom." *Walsh v. McGee*, 899 F. Supp. 1232, 1236 (S.D.N.Y. 1995) (citing *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 173-80, 2 L. Ed. 60 (1803); *W.G. v. Senatore*, 18 F.3d 60, 64 (2d Cir. 1994)). The question of subject matter jurisdiction is so fundamental that it is a "question the court is bound to ask and answer for itself, even when not otherwise suggested . . . ." *Mansfield, Coldwater & Lake Michigan Ry. v. Swan*, 111 U.S. 379, 382, 28 L. Ed. 462, 4 S. Ct. 510 (1884). Thus, there is no restriction on who may make a motion pursuant to Rule 12(b)(1), or when such motion may be made. *See* 5A CHARLES A. WRIGHT & ARTHUR R. MILLER, FEDERAL PRACTICE AND PROCEDURE § 1350, at 200 (2d ed. 1990). In fact, Rule 12(h)(3) specifically provides that "whenever it appears by suggestion of the parties or otherwise that the court lacks jurisdiction of the subject matter, the court shall

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[8] The Intervenor has also declined to take any position with respect to the substantive merits of either plaintiff's Patent Act Claim or Lanham Act Claim. *See* Intervenor Brief at 3 n.1.

dismiss the action."[9] The burden of proving that a federal court has subject matter jurisdiction over a given action rests with the party attempting to invoke the court's jurisdiction. *Thomson v. Gaskill*, 315 U.S. 442, 446, 86 L. Ed. 951, 62 S. Ct. 673 (1942); *see* generally 13 CHARLES A. WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE & PROCEDURE § 3522, at 60-64 (2d ed. 1984). If a case is dismissed for lack of subject matter jurisdiction, all other matters are moot. *Bell v. Hood*, 327 U.S. 678, 682, 90 L. Ed. 939, 66 S. Ct. 773 (1946).

B. ARM OF THE STATE DOCTRINE

CSB first contends that the constitutional issues in this case need not be reached because Florida Prepaid is not the "alter ego" or "arm of the state" of Florida and, therefore, is not even entitled to Eleventh Amendment immunity. In response, Florida Prepaid counters that: (1) CSB is judicially estopped from arguing that Florida Prepaid is not an arm of the state for purposes of the pending motions because it previously argued in *College Saving I* that a state agency, such as Florida Prepaid, is barred as a matter of law from maintaining counterclaims for defamation, product disparagement and trade libel, *see* Florida Prepaid's Lanham Act Brief at 10; (2) CSB is barred by the law of the case doctrine from arguing that Florida Prepaid is not an arm of

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[9] Rule 12(h)(3) provides: "Whenever it appears by suggestion of the parties or otherwise that the court lacks jurisdiction of the subject matter, the court shall dismiss the action." The distinction between a Rule 12(h)(3) motion and a Rule 12(b)(1) motion "is simply that the former may be asserted at any time and need not be responsive to any pleading of the other party." *Berkshire Fashions, Inc. v. M.V. Hakusan II*, 954 F.2d 874, 879 n.3 (3d Cir. 1992). For purposes of this case, the motions are analytically identical because the only consideration is whether subject matter jurisdiction arises. *See Id.*

the state because this Court previously dismissed Florida Prepaid's counterclaims after finding that Florida Prepaid was a state agency, *see Id.*; and (3) Florida Prepaid has satisfied its burden under *Christy v. Pennsylvania Turnpike Comm'n*, 54 F.3d 1140 (3d Cir.), *cert. denied*, 133 L. Ed. 2d 238, 116 S. Ct. 340 (1995), of demonstrating that it is an arm of the State of Florida. *Id.* at 5-10. These claims will be addressed *seriatim*.

1. Judicial Estoppel

The doctrine of judicial estoppel "serves a consistently clear and undisputed jurisprudential purpose: to protect the integrity of the courts." *McNemar v. Disney Store, Inc.*, 91 F.3d 610, 616 (3d Cir. 1996). This doctrine, which "is an equitable doctrine invoked by a court at its discretion," *Id.* at 617 (quotation omitted), precludes a party from assuming a position in a legal proceeding that contradicts or is inconsistent with a previously asserted position. *Ryan Operations G.P. v. Santiam-Midwest Lumber Co.*, 81 F.3d 355, 358 (3d Cir. 1996); *Delgrosso v. Spang & Co.*, 903 F.2d 234, 241 (3d Cir.), *cert. denied*, 498 U.S. 967, 112 L. Ed. 2d 412, 111 S. Ct. 428 (1990); *Scarano v. Central R.R. Co. of N.J.*, 203 F.2d 510, 513 (3d Cir. 1953); C. WRIGHT, A. MILLER, E. COOPER, 18 FEDERAL PRACTICE AND PROCEDURE § 4477 (1981 & Supp. 1996). While judicial estoppel is not intended to eliminate all inconsistencies, regardless of how slight or inadvertent, it is designed to prevent litigants from "playing 'fast and loose with the courts.'" *Ryan Operations*, 81 F.3d at 358 (quoting *Scarano*, 203 F.2d at 513). To permit a party to assume a position inconsistent with a position it had successfully relied upon in a past proceeding "would most flagrantly exemplify . . . playing 'fast and loose with the courts' which has been emphasized as an evil the courts should not tolerate." *Delgrosso*, 903 F.3d at 241 (quoting

Scarano, 203 F.2d at 513); *see* 903 F.3d at 242 (noting that the "application of the doctrine of judicial estoppel is particularly appropriate in situations . . . where the party benefitted from its original position.").

To determine whether the doctrine of judicial estoppel applies to the particular facts and circumstances of a position, a court must engage in a two-part threshold inquiry: "(1) Is the party's present position inconsistent with a position formerly asserted? (2) If so, did the party assert either or both of the inconsistent positions in bad faith – *i.e.*, 'with intent to play fact and loose with the court?'" *McNemar*, 91 F.3d at 618 (citing *Ryan Operations*, 81 F.3d at 361). Only if both prongs are satisfied is judicial estoppel an appropriate remedy. *Ryan Operations*, 81 F.3d at 361.

While at first blush it may appear as though CSB has asserted inconsistent positions regarding Florida Prepaid's status as an arm of the state, closer examination reveals that the issue of whether a state agency may bring an action for defamation, product disparagement or trade libel against a private competitor does not resolve whether that same state agency is entitled to Eleventh Amendment immunity. Indeed, the City of Chicago itself, whose suit against the Chicago Tribune occasioned the clear enunciation of the doctrine that no government entity can maintain actions for defamation, *see City of Chicago v. Tribune Co.*, 307 Ill. 595, 139 N.E. 86 (Ill. 1923), has been found not to be entitled to immunity under the Eleventh Amendment.[10] *N.M. Paterson & Sons, Ltd. v. City of Chicago*, 176 F. Supp. 323, 324 (N.D. Ill.

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[10] Of course, the same would hold true for any city or county because Eleventh Amendment immunity does not extend to these entities. *See, e.g., Mt. Healthy City Sch. Bd. of Educ. v. Doyle*, 429 U.S. 274, 50 L. Ed. 2d 471, 97 S. Ct. 568 (1977); *Lincoln County v. Luning*, 133 U.S. 529, 33 L. Ed. 766, 10 S. Ct. 363 (1890).

1959). Accordingly, the Court finds that judicial estoppel is inappropriate under these circumstances.

2. Law of the Case

The law of the case doctrine was developed "to maintain consistency and avoid reconsideration of matters once decided during the course of a single continuing lawsuit." *Casey v. Planned Parenthood of Southeastern Pa.*, 14 F.3d 848 (3d Cir. 1994) (quoting 18 CHARLES A. WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL RULES AND PRACTICE PROCEDURE § 4478 (1981)). The doctrine of the law of the case dictates that "when a court decides upon a rule of law, that rule should continue to govern the same issues in subsequent stages in the litigation." *Deisler v. McCormack Aggregates, Co.*, 54 F.3d 1074, 1086 (3d Cir. 1995); *Resyn Corp. v. United States*, 945 F.2d 1279, 1281 (3d Cir. 1991) (quoting *Devex Corp. v. General Motors Corp.*, 857 F.2d 197, 199 (3d Cir. 1988), *cert. denied sub nom. Technograph Liquidating Trust v. General Motors Corp.*, 489 U.S. 1015, 103 L. Ed. 2d 190, 109 S. Ct. 1128 (1989)). Law of the case rules apply "both to issues expressly decided by a court in prior rulings and to issues decided by necessary implication." *Bolden v. Southeastern Pa. Transp. Auth.*, 21 F.3d 29, 31 (3d Cir. 1994) (citing *Doe v. New York City Dep't of Social Servs.*, 709 F.2d 782 (2d Cir.), *cert. denied sub nom. Catholic Home Bureau v. Doe*, 464 U.S. 864, 78 L. Ed. 2d 171, 104 S. Ct. 195 (1983)). The law of the case doctrine merely "directs a court's discretion, it does not limit the tribunal's power." *Arizona v. California*, 460 U.S. 605, 618, 75 L. Ed. 2d 318, 103 S. Ct. 1382 (1983); *Bloom v. Consolidated Rail Corp.*, 812 F. Supp. 553, 556 (E.D. Pa. 1993), *rev'd on other grounds*, 41 F.3d 911 (3d Cir. 1994). It is axiomatic that "the doctrine of the law of the case comes into play only with respect to issues previously determined."

Quern v. Jordan, 440 U.S. 332, 347 n.18, 59 L. Ed. 2d 358, 99 S. Ct. 1139 (1979).

As noted above, this Court's ruling that Florida Prepaid could not maintain an action for defamation, product disparagement or trade libel against CSB was not dispositive of the issue of whether that same state agency is entitled to Eleventh Amendment immunity. Nor was this issue decided by implication. Therefore, because *College Savings I* did not reach the issue of whether Florida Prepaid is an alter ego or arm of the State of Florida, we conclude that the doctrine of the law of the case is inapplicable to the case at bar and does not preclude this Court from considering the merits of CSB's argument that Florida Prepaid is not entitled to Eleventh Amendment immunity.

3. Arm of the State Doctrine

The Eleventh Amendment to the Constitution provides: "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. CONST. amend. XI. This provision divests the federal courts of the power to entertain a suit brought by a private party against a state unless either the state consents or Congress authorizes the action. *Port Authority Trans-Hudson Corp. v. Feeney*, 495 U.S. 299, 304, 109 L. Ed. 2d 264, 110 S. Ct. 1868 (1990); *Ford Motor Co. v. Dep't of Treasury of the State of Ind.*, 323 U.S. 459, 89 L. Ed. 389, 65 S. Ct. 347 (1945); *Hans v. Louisiana*, 134 U.S. 1, 15, 33 L. Ed. 842, 10 S. Ct. 504 (1890).

The Eleventh Amendment bars suits not only against the state itself, but also against a subdivision of the state if the state remains "the real party in interest." *Edelman v. Jordan*,

415 U.S. 651, 663, 39 L. Ed. 2d 662, 94 S. Ct. 1347 (1974); 13 CHARLES A. WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE § 3524 at 140-145 (2d ed. 1984) (Eleventh Amendment protects subdivisions of states such as penal institutions, highway departments, courts, most universities, and bar associations). The state is the real party in interest whenever "'the judgment sought would expend itself on the public treasury or domain, or interfere with the public administration,' or if the effect of the judgment would be 'to restrain the Government from acting, or to compel it to act.'" *Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 101 n.11, 79 L. Ed. 2d 67, 104 S. Ct. 900 (1984) (quoting *Dugan v. Rank*, 372 U.S. 609, 10 L. Ed. 2d 15, 83 S. Ct. 999 (1963)).

In an effort to formulate a test to determine whether Eleventh Amendment immunity extends to a particular entity, the Third Circuit has developed the following set of factors ("*Urbano* factors")[11]:

> (1) whether, in the event the plaintiff prevails, the payment of the judgment would come from the state (this includes three considerations: whether the payment will come from the state's treasury, whether the agency has sufficient funds to satisfy the judgment, and whether the sovereign has immunized itself from responsibility for the agency's debts); (2)

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[11] In *Urbano v. Bd. of Managers of N.J. State Prison*, 415 F.2d 247, 251-52 (3d Cir. 1969), *cert. denied*, 397 U.S. 948, 25 L. Ed. 2d 128, 90 S. Ct. 967 (1970), the court set forth nine factors for determining whether Eleventh Amendment immunity extended to a particular entity. Subsequently, however, these factors were divided into the present three general factors. *Fitchik v. New Jersey Transit Rail Operations, Inc.*, 873 F.2d 655, 659 (3d Cir.), *cert. denied*, 493 U.S. 850, 107 L. Ed. 2d 107, 110 S. Ct. 148 (1989).

> the status of the agency under state law (this includes four considerations: how state law treats the agency generally, whether the agency is separately incorporated, whether the agency can be sue and be sued in its own right, and whether it is immune from state taxation); and (3) what degree of autonomy the agency enjoys.

Christy, 54 F.3d at 1144-45 (citing *Peters v. Del. River Port Auth. of Pa. and N.J.*, 16 F.3d 1346, 1350 (3d Cir.), *cert. denied*, 130 L. Ed. 2d 20, 115 S. Ct. 62 (1994)); *see* also *Bolden v. Southeastern Pa. Transp. Auth.*, 953 F.2d 807, 816 (3d Cir. 1991) (*in banc*), *cert. denied*, 504 U.S. 943, 119 L. Ed. 2d 206, 112 S. Ct. 2281 (1992); *Fitchik*, 873 F.2d 655, 659. The party asserting Eleventh Amendment immunity bears the burden of proving entitlement to it. *Christy*, 54 F.3d at 1144. We turn now to this three-pronged inquiry.

a. Funding

Although no single *Urbano* factor is dispositive, the "most important" is whether a judgment against the entity in question would be paid out of the state treasury. *Christy*, 54 F.3d at 1145 (citing *Fitchik*, 873 F.2d at 659). This special emphasis is supported by "the Eleventh Amendment's central goal: the prevention of federal court judgments that must be paid out of the State's treasury." *Id.* (citing *Fitchik*, 873 F.2d at 659-60). *See* also *Hess v. Port Authority Trans-Hudson Corp.*, 513 U.S. 30, 115 S. Ct. 394, 404, 130 L. Ed. 2d 245 (1994) ("Prevention of federal court judgments that must be paid out of a State's treasury" formed the "impetus" for the Eleventh Amendment); *id.* ("The vast majority of Circuits have concluded that the state treasury factor is the most important factor to be considered and, in practice, have generally accorded this factor dispositive weight.").

Under Florida law, Florida Prepaid can "invest funds not required for immediate disbursement." FLA. STAT. § 240.551(5)(c)(5). Florida Prepaid may also "hold, buy, and sell any instruments, obligations, securities, and property determined appropriate by the board," *see* FLA. STAT. § 240.551(5)(c)(7)," "solicit and accept gifts, grants, loans, and other aids from any source," *see* FLA. STAT. § 240.551(5)(c)(12), and "require and collect administrative fees and charges in connection with any transaction and impose reasonable penalties, including default, for delinquent payments for entering into an advance payment contract on a fraudulent basis." FLA. STAT. § 240.551(5)(c)(13). Moreover, Florida Prepaid has the authority to increase contract prices as necessary to meet its costs. *See* 1995 Florida Prepaid College Program Brochure at 8, attached to Declaration of Deborah M. Lodge ("Lodge Decl.") as Exh.7.

Using these powers, Florida Prepaid has amassed total assets of nearly $ 1.5 billion and a surplus in excess of $ 184 million as of June 30, 1995.[12] Moreover, it has done so without much, if any, support from the State of Florida. Indeed, Stanley Tate, Florida Prepaid's chairman, stated that: "Not one dime of tax money has been spent on this program." *See* Testimony of Stanley G. Tate, April 30, 1990, before the *Subcommittee on Labor, Health and Human Services, Education and Related Agencies*, 101st Cong., 2d Sess. at 2504, attached to Lodge Decl. as Exh. 3. In the same written testimony, Tate also explained that the program was started with a $ 600,000 loan from the State of Florida Department

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[12] The $184 million represents the present value amount by which "the expected value of assets exceeds the expected value of liabilities" as stated by Ernst & Young, Florida Prepaid's accounting firm. *See* 1996 Annual Report at 12-13, attached to Lodge Decl. as Exh. 4.

of Insurance, and that this loan was paid in full in 1989, "two full years ahead of schedule." *Id.*

Although these factors tend to show that defendant is self-sufficient in many respects, Florida Prepaid is precluded by law from satisfying a judgment against it. Specifically, Florida law provides:

> Neither the state nor any of its agencies shall pay or be required to pay monetary damages under the judgment of any court except pursuant to an appropriation made by law. To enforce a judgment for monetary damages against the state or a state agency, the sole remedy of the judgment creditor, if there has not otherwise been an appropriation made by law to pay the judgment, is to petition the Legislature in accordance with its rules to seek an appropriation to pay the judgment.

FLA. STAT. 11.066(3). Thus, the fact that Florida Prepaid may have more than ample funds to satisfy any judgment that may result from this action is completely irrelevant because Florida Prepaid, like all other state agencies in Florida, is barred by law from satisfying any judgment against it, regardless of amount. Accordingly, this factor weighs heavily in favor of finding that Florida Prepaid is an arm of the State of Florida.

Another factor that tends to weigh in favor of Florida Prepaid's claim that it is entitled to Eleventh Amendment immunity is the fact that, if the Trust Fund itself proves unable to meet its obligations, the State of Florida will pay the beneficiaries directly:

> The state shall agree to meet the obligations of the board to qualified beneficiaries if moneys in the fund fail to offset the obligations of the board. The

> Legislature shall appropriate to the Prepaid Postsecondary Education Expense Trust Fund the amount necessary to meet the obligations of the board to qualified beneficiaries.

FLA. STAT. § 240.551(9). Thus, any resulting depletion of the Trust Fund through litigation would likely trigger the obligation of the State to make payments to beneficiaries. Moreover, the State of Florida is ultimately responsible for covering certain debts of Florida Prepaid:

> In the event that the state determines the program to be financially infeasible, the state may discontinue the provision of the program. Any qualified beneficiary who has been accepted by and is enrolled or is within 5 years of enrollment . . . shall be entitled to exercise the complete benefits for which he or she has contracted. All other contract holders shall receive a refund . . . of the amount paid in and an additional amount in the nature of interest at a rate that corresponds, at a minimum, to the prevailing interest rates for savings accounts provided by banks and savings and loan associations.

Id. § 240.551(14). Therefore, while the parties argue over the importance of this obligation, *see* CSB's Lanham Act Brief at 15-16; Montjoy Decl. ¶¶ 23-26, it is undisputed that under certain circumstances, the State of Florida will cover Florida Prepaid's debts. Accordingly, the Court finds that this factor weighs heavily in favor of finding that Florida Prepaid is an arm of the state.

The existence of a moderate amount of insurance does not change this analysis. The Florida Casualty Insurance Risk Management Trust Fund is a self-insurance program created by the State of Florida for the purpose of insuring all state

agencies and is administered by the Division of Risk Management of the Florida Department of Insurance. *See* Montjoy Decl. ¶¶ 15-20. Premiums paid into the Fund by state agencies come from a variety of sources, including state-appropriated funds. *See id.* ¶ 19. Coverage is limited to $ 100,000 per claimant and $ 200,000 for all claims arising out of the same transaction or occurrence. FLA. STAT. § 768.28. Thus, only the first $ 100,000 or $ 200,000 of any judgment(s) would be paid through insurance; the rest could be obtained only through direct legislative appropriation. Montjoy Decl. ¶ 21. Taken together, these provisions do not establish that the State of Florida has insulated itself from any potential liability that may arise from a claim against Florida Prepaid. Rather, these provisions tend to demonstrate that the State of Florida has found, as a matter of policy, that the legislature should not be burdened with petitions for such claims. Accordingly, the existence of insurance in this matter does not weigh against Florida Prepaid's claim that it is an arm of the state.

In addition, the Court is not persuaded by CSB's suggestion that the importance of FLA. STAT.§ 11.066(3), which provides that any judgment against a state agency must be paid pursuant to an appropriation of the state legislature, should somehow be diminished because "it was adopted solely to bolster sovereign immunity." CSB's Lanham Act Brief at 17 (citing *Arnold v. BLaST Intermediate Unit 17*, 843 F.2d 122 (3d Cir. 1988); *Gary W. v. State of La.*, 622 F.2d 804 (5th Cir. 1980), *cert. denied*, 450 U.S. 994 (1981)). First, in both *Arnold and Gary W.*, the courts were faced with the issue of whether a state could, in effect, avoid paying a federal judgment by relying on its own law to frustrate execution. The federal courts quite properly refused to countenance such defiance. Moreover, neither case involved an Eleventh Amendment question, and neither case suggests

that a court should ignore an applicable state-law payment provision before a judgment is rendered. Second, the Supreme Court has never indicated that a state acts inappropriately by structuring an agency so that it may enjoy the special constitutional protections of the States themselves. Indeed, in *Lake Country Estates, Inc. v. Tahoe Regional Planning Agency*, the Court found that such structuring was a factor weighing in favor of finding an agency to be an arm of the state. 440 U.S. 391, 401, 99 S. Ct. 1171, 59 L. Ed. 2d 401 (1979).

In sum, the Court finds that the first factor, whether the source of payment for any judgment would come from the state, weighs heavily in favor of finding that Florida Prepaid is an alter ego of the State of Florida. Florida is obligated, under certain circumstances, to cover the obligations of Florida Prepaid. Moreover, while it is true that the legislature is not compelled to satisfy a judgment against Florida Prepaid, Florida Prepaid, like all other state agencies in the State of Florida, cannot satisfy this judgment itself. Clearly, the State of Florida should not be penalized with the loss of sovereign immunity for the way it had chosen to organize its government. Florida Prepaid operates in the same manner and is subject to the same restrictions as are other Florida State agencies.

b. Status at State Law

The second general factor we must consider in determining whether Florida Prepaid is an arm or alter ego of the State of Florida is the status of Florida Prepaid under Florida law. Our purpose here is to determine whether Florida law treats Florida Prepaid as an independent entity, or as a surrogate for the State. *See Fitchik*, 873 F.2d at 662.

Under Florida law, those entities entitled to sovereign immunity include "state agencies," which are defined as, inter

alia, "'corporations primarily acting as instrumentalities or agencies of the state.'" *Skoblow v. Ameri-Manage, Inc.*, 483 So. 2d 809, 812 (Fla. App. 3d Dist. 1986) (Quoting FLA. STAT. § 768.28(2)), *aff'd sub nom. Spooner v. Dep't of Corrections*, 514 So. 2d 1077 (Fla. 1987), *cert. denied*, 491 U.S. 904 (1989). In *Skoblow*, the court held that a private hospital management company was entitled to sovereign immunity as a "state agency" because it had contracted with the government to manage a state hospital. *Id.* at 811-12. It follows, therefore, that a full-time state agency such as Florida Prepaid can receive no less protection.

Several other factors also weigh in favor of finding Florida Prepaid an arm of the state. For example, monies in the Florida Prepaid Trust Fund are protected by law from the creditors of the owners or beneficiaries of advance tuition payment contracts. *See* FLA. STAT. § 222.22 (1995). Florida Prepaid also enjoys certain tort immunity under state law. *See* FLA. STAT. § 768.28. Further, all of Florida Prepaid's powers are derived from specific legislative grants. Indeed, state agencies in Florida have no inherent or common law powers. *Kizar v. Wittenberg*, 398 So. 2d 1002, 1003 (Fla. App. 5th Dist. 1981); *Florida ex rel. Greenberg v. Florida State Bd. of Dentistry*, 297 So. 2d 628, 636 (Fla. App. 1st Dist.), *cert. dismissed*, 300 So. 2d 900 (Fla. 1974). All Florida agencies, including Florida Prepaid, have only those powers specifically granted to them by the legislature.

On the other hand, there are certain factors which tend to weigh against a finding of immunity. Specifically, Florida Prepaid: (1) has the ability to sue and be sued in its own name; (2) controls its own funds and the investment and income therefrom; (3) may enter into contracts in its own name; and (4) may invest funds. *See* CSB's Lanham Act Brief

at 22 & n.20.[13] However, the Supreme Court has found that at least two of these factors – the fact that an agency is a "body corporate" and that it could "sue or be sued" – have limited relevance in Eleventh Amendment cases. *Florida Dept. of Health & Rehabilitative Servs. v. Florida Nursing Home Ass'n*, 450 U.S. 147, 67 L. Ed. 2d 132, 101 S. Ct. 1032 (1981) (per curiam). Moreover, this Court has already determined that Florida Prepaid's ability to control funds, enter into contracts, and invest funds was relatively unimportant for the present analysis when compared with other statutory provisions under federal law. Accordingly, the Court finds that the second general factor also weighs in favor of a finding of immunity.

c. Autonomy

The Prepaid Postsecondary Education Expense Board, which administers Florida Prepaid, is composed of four officers of the State of Florida: the Insurance Commissioner and Treasurer, the Comptroller, the Chancellor of the Board of Regents, and the Executive Director of the State Board of Community Colleges.[14] FLA. STAT. § 240.551(5). Three additional members are appointed by the Governor of Florida and confirmed by the State Senate. *Id.* The Governor also appoints the initial chairman of the board. *Id.* § 240.551(5)(a). State authority over the appointment of Board

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[13] CSB also alleges that Florida Prepaid is "separately incorporated," and therefore, this factor should weigh against immunity. However, Florida Prepaid is not separately incorporated; rather, it is a state agency that has also been created as a "body corporate" with certain corporate powers. FLA. STAT. § 240.551(5).

[14] The Insurance Commissioner and Treasurer and the Comptroller are elected constitutional officers of the State of Florida. *See* FLA. CONST. art. IV, §§ 4(d), (e).

members "lends obvious support to a finding of sovereignty." *Christy*, 54 F.3d at 1149 (citing *Peters*, 16 F.3d at 1351-52).

Moreover, in another plain limitation on autonomy, Florida Prepaid's accounts are "subject to annual audits by the Auditor General or his designee."[15] FLA. STAT. § 240.551(5)(g).

On the other hand, weighing in favor of a finding of autonomy are the facts that the Board itself "appoint[s] an executive director to serve as the chief administrative and operational officer of the board and to perform other duties assigned to him or her by the board," FLA. STAT. § 240.551(5)(b) and is authorized to "contract for necessary goods and services, employ necessary personnel, and engage the services of private consultants, actuaries, managers, legal counsel, and auditors for administrative or technical assistance." *Id.* § 240.551(5)(c)(11). Florida Prepaid also has the ability to "establish agreements or other transactions with federal, state, and local agencies, including state universities and community colleges," *id.* § 240.551(5)(c)(4), "invest funds not required for immediate disbursements," *id.* § 240.551(5)(c)(5), "appear on its own behalf before boards, commissions, or other governmental agencies," *id.* § 240.551(5)(c)(6), "hold, buy, and sell any instruments, obligations, securities, and property determined appropriate by the board," *id.* § 240.551(5)(c)(7), "restrict the numbers of participants in the . . . plan[s]," *id.* § 240.551(5)(c)(9), "delineate the terms and conditions under which payments may be withdrawn from the fund and impose reasonable fees and charges for such withdrawal," *id.* § 240.551(5)(c)(16),

[15] The Auditor General of Florida is an officer of the State of Florida appointed by the state legislature pursuant to Article III, section 2 of the Florida Constitution.

and "establish other policies, procedures, and criteria to implement and administer the provisions of this section." *Id.* § 240.551(5)(c)(18).[16]

On balance, this factor weighs slightly in favor of immunity from suit in this case. *Cf. Peters*, 16 F.3d at 1351-52 (where separately incorporated agency was found to have power to enter contracts, hold property, and set and collect tolls, court held that the autonomy factor weighed "slightly" in favor of affording immunity in light of the states' power to appoint the members of the board of the agency in question). Further, we note that like all Florida state agencies, Florida Prepaid has only the powers and degree of independence necessary for it to carry out the tasks assigned to it by the State of Florida.

[16] With respect to CSB's contention that Florida Prepaid is autonomous, in part, because its funds remain separate from other state funds at all times, *see* CSB's Lanham Act Brief at 24, we note that a similar argument was rejected by the court in *Michigan v. United States*, 40 F.3d 817 (6th Cir. 1994). Specifically, the court noted:

> It is likewise immaterial that the funds of the education trust, like the funds of many public corporations, authorities, and similar establishments, come primarily from persons to whom the entity provides a service – and it is immaterial that such funds are earmarked for the benefit of those who receive the service. If the funds of the Postal Service come primarily from persons who buy stamps, the funds of the Tennessee Valley Authority from those who purchase power from that agency, and the funds of the Port of New York authority from users of the authority's bridges and tunnels, it does not mean that the Postal Service, the Tennessee Valley Authority, and the Port of New York Authority are anything other than governmental in character. Neither is the governmental character of these agencies compromised in any way by the fact that the agencies' funds are earmarked – like highway trust funds and countless other restricted accounts of governmental bodies – for use in performing the functions that the agencies were created by law to perform. *Id.* at 829.

d. Totality of the Factors

Having considered each of the three factors above, we now must consider the three factors in their totality. *See Bolden*, 953 F.2d at 821. Since the most important factor, funding, weighs heavily in favor of Florida Prepaid, and the other two factors also weigh at least slightly in favor of Florida Prepaid, the balance is clearly struck in favor of a finding that Florida Prepaid enjoys sovereign immunity as an arm of the State of Florida.

C. WAIVER BY CONDUCT IN LITIGATION

CSB argues that, even if the Eleventh Amendment would otherwise apply and would undercut the jurisdiction of this Court, Florida Prepaid has waived this defense and has effectively consented to being sued here by "participating in this federal action and by filing counterclaims in both the Lanham Act and patent actions." CSB's Lanham Act Brief at 9. According to CSB, Florida Prepaid

> has made more than a "general appearance" in this Court. Florida Prepaid has filed three counterclaims and has availed itself of the Court's jurisdiction in those matters. By virtue of its participation in this suit, Florida Prepaid thus has waived any Eleventh Amendment immunity it might have enjoyed.

Id. at 10 (citation omitted). Moreover, CSB seems to suggest that Florida Prepaid's failure to raise the Eleventh Amendment defense in its pleadings somehow precludes defendant from raising this defense at this time.

Plaintiff's arguments merit little discussion. To begin with, Florida Prepaid did not voluntarily enter into this litigation; instead, it was sued in this district despite conducting less than one percent of its business here. Thus, its

motion to dismiss pursuant to FED. R. CIV. P. 12(b)(6) or, in the alternative, to transfer the Patent Act Complaint to the Northern District of Florida pursuant to 28 U.S.C. § 1404, must be viewed as the response of a "beleaguered defendant," rather than an active participant. *See Unix Sys. Labs., Inc. v. Berkeley Software Design, Inc.*, 832 F. Supp. 790, 801 (D.N.J. 1993); *see* also *Pennhurst State Sch. & Hosp.*, 465 U.S. at 99 (stating that the waiver of a state's sovereign immunity, like the waiver of any constitutional right, must be construed in favor of the holder of the right). It is also clear that Florida Prepaid's counterclaims all involved matters that arose from, or were concerned with, matters in the underlying complaints. *See Kaplan v. First Options of Chicago, Inc.*, 19 F.3d 1503, 1512 (3d Cir.) (noting that it is well established that "filing a counterclaim does not waive an objection to jurisdiction."), *cert. granted in part*, 115 S. Ct. 634 (1994), *aff'd*, 514 U.S. 938, 115 S. Ct. 1920, 131 L. Ed. 2d 985 (1995); *see* also *Bayou Steel Corp. v. M/V Amstelvoorn*, 809 F.2d 1147, 1148 (5th Cir. 1987); *In re Arthur Treacher's Franchisee Litig.*, 92 F.R.D. 398, 413 (E.D. Pa. 1981); *cf. Neifeld v. Steinberg*, 438 F.2d 423, 431 n.17 (3d Cir. 1971) (dicta). Finally, we note that this analysis is not changed by the fact that Florida Prepaid did not raise the Eleventh Amendment immunity defense in its answer. The Eleventh Amendment defense sufficiently "partakes of the nature of a jurisdictional bar so that it need not be raised in the trial court." *Florida Dep't of State v. Treasure Salvors, Inc.*, 458 U.S. 670, 683 n.18, 73 L. Ed. 2d 1057, 102 S. Ct. 3304 (1982); *Edelman*, 415 U.S. at 678. Therefore, Florida Prepaid's failure to raise this defense at the outset does not preclude its application at this juncture.

D. THE *PARDEN* DOCTRINE

Where a state consents to being sued, neither the Eleventh Amendment nor the doctrine of sovereign immunity is a bar. *See Petty v. Tennessee-Missouri Bridge Comm'n*, 359 U.S. 275, 3 L. Ed. 2d 804, 79 S. Ct. 785 (1959); *Clark v. Barnard*, 108 U.S. 436, 27 L. Ed. 780, 2 S. Ct. 878 (1883). In the absence of an express consent by a state to be sued, federal courts have still attempted to find some type of implied or constructive consent by the state to avoid the limitations of the Eleventh Amendment. Thus, in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184, 12 L. Ed. 2d 233, 84 S. Ct. 1207 (1964), the Court found that the State of Alabama, by its conduct in operating a railroad, had consented to suit in federal court under the Federal Employers' Liability Act ("FELA"), 45 U.S.C. §§ 51-60. In *Parden*, employees brought a FELA personal injury suit for damages against an Alabama-owned interstate railroad. The Court first examined whether Congress had intended to include state-owned as well as privately-owned rail carriers under the coverage of FELA. Although there was no language in FELA specifically authorizing suits against a state, Congress had made FELA applicable to "every" interstate rail carrier, thus including the Alabama-owned railroad within its coverage.

After finding that the state-owned railroad was within the coverage of FELA, the Court next examined whether Congress had the power to subject Alabama to suit in light of the State's sovereign immunity. Justice Brennan, writing for a five-member majority, found that by empowering Congress to regulate commerce, "the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation." 377 U.S. at 192. However, the majority opinion went on to explain that the Eleventh Amendment was

not being overridden, since a state still could not be sued by an individual without its consent. The Court concluded that Alabama had consented to a suit under FELA by its continued operation of an interstate railroad for approximately twenty years after Congress had made such railroads subject to suit under FELA.

Four Justices disagreed as to the type of statutory notice that was necessary before Congress could make the states subject to suit through their implied consent.

> It should not be easily inferred that Congress, in legislating pursuant to one article of the Constitution, intended to effect an automatic and compul sory waiver of rights arising out of another. Only when Congress has clearly considered the problem and expressly declared that any state which undertakes given regulable conduct will be deemed thereby to have waived its immunity should courts disallow the invocation of this defense.
>
> . . . If the automatic consequence of state operation of a railroad in interstate commerce is to be waiver of sovereign immunity, Congress' failure to bring home to the State the precise nature of its option makes impossible the "intentional relinquishment or abandonment of a known right or privilege" which must be shown before constitutional rights may be taken to have been waived. *Johnson v. Zerbst*, 304 U.S. 458, 464, 82 L. Ed. 1461, 58 S. Ct. 1019 (1938); *Fay v. Noia*, 372 U.S. 391, 9 L. Ed. 2d 837, 83 S. Ct. 822 (1963).

Id. 377 U.S. at 198-200 (White, J., dissenting). Despite the difference between the majority and dissenters regarding the need for express congressional authorization for suits against

the state, the *Parden* Court recognized that where Congress under its commerce power had authorized private suits against a state engaging in certain conduct and the state continued that conduct, the state necessarily had consented to be sued.

Subsequently, in *Employees of the Dep't of Pub. Health & Welfare v. Dep't of Public Health & Welfare*, 411 U.S. 279, 36 L. Ed. 2d 251, 93 S. Ct. 1614 (1973), the dissenting position in *Parden* was adopted by a majority of the Court. The *Employees* case involved a suit against the State of Missouri to enforce the State's compliance with the Fair Labor Standards Act, which had been amended to apply to state and local governments. The majority distinguished *Parden* on the grounds that whereas states have a choice whether or not to operate railroads, they have little discretion in deciding whether to provide basic public services like public hospitals and police protection. In the absence of a clear declaration from Congress that it intended to make states liable for violations of the Act, the Court concluded, there is no basis for finding a constructive waiver. *Id.* at 285.

The Court's refusal to find constructive waivers became even clearer a year after the *Employees* decision in *Edelman v. Jordan*, 415 U.S. 651, 39 L. Ed. 2d 662, 94 S. Ct. 1347 (1974). In addition to trying to avoid the Eleventh Amendment by suing the state officers, the plaintiffs also claimed that Illinois had waived its immunity to suits over its welfare program by voluntarily choosing to receive federal funds. Under the Social Security Act, states are not obligated to participate in the program of Aid to the Aged, Blind and Disabled. If, however, a state decides to participate, it receives federal funds but must comply with federal standards. The Court said that there was not a sufficient declaration of Congress's desire to permit suits against states in federal courts when states choose to receive

federal welfare monies. The Court concluded that the "mere fact that a State participates in a program through which the Federal Government provides assistance for the operation by the State of a system of public aid is not sufficient to establish consent on the part of the State to be sued in the federal courts." [17] *Id.* at 673.

In 1987, the Supreme Court explicitly overruled its earlier decision in *Parden*. In *Welch v. Texas Dep't of Highways and Pub. Transp.*, the Court considered whether the Jones Act can be the basis for state liability in federal court. 483 U.S. 468, 107 S. Ct. 2941, 97 L. Ed. 2d 389 (1987). The Jones Act is a federal statute creating remedies for injured seamen like those for injured railroad employees involved in the *Parden* case. Welch was injured while working for the State of Texas on the docks and sued to recover for his injuries.

The Supreme Court held that the Eleventh Amendment barred Welch's suit against Texas. The Court stated that "Congress has not expressed in unmistakable statutory language its intention to allow States to be sued in federal court under the Jones Act." *Id.* at 475. The Court emphasized that waiver will be found only if Congress clearly and unequivocally expresses its intent to make state liable. Moreover, the Court declared that P*arden* was overruled to the extent that it was inconsistent with its holding in *Welch*. *Id.* at 476.

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[17] The holding in Edelman has been reaffirmed and applied by the Court in rulings that a state does not waive its Eleventh Amendment immunity by receiving federal funds under the Rehabilitative Act of 1973, *see Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 87 L. Ed. 2d 171, 105 S. Ct. 3142 (1985), or by agreeing to be bound by the requirements of the federal Medicaid Act. *Florida Dep't of Health & Rehabilitative Servs. v. Florida Nursing Home Ass'n*, 450 U.S. 147, 67 L. Ed. 2d 132, 101 S. Ct. 1032 (1981).

In sum, the rarity of a state's constructive waiver of its Eleventh Amendment immunity cannot be overstated. *Edelman*, 415 U.S. at 653 ("Constructive consent is not a doctrine commonly associated with the surrender of constitutional rights . . . ."). Indeed, no Supreme Court decision except *Parden* itself, which was a five-four decision, has found that consent under the *Parden* theory.

With the foregoing as a backdrop, we conclude that the *Parden* doctrine cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment immunity because: (1) Florida Prepaid is essentially performing a role traditionally undertaken by state governments – making available affordable educational opportunities; and (2) in the wake of *Seminole Tribe*, Congress may no longer utilize its Article I powers to elicit a waiver of sovereign immunity as a condition for participating in a field subject to congressional regulation.

1. Florida Prepaid's Important Governmental Function

The Supreme Court has recognized that "education is perhaps the most important function of state government." *Brown v. Bd. of Educ.*, 347 U.S. 483, 493, 98 L. Ed. 873, 74 S. Ct. 686 (1954). More recently, the Court reaffirmed that education is an area "where States historically have been sovereign." *United States v. Lopez*, 514 U.S. 549, 131 L. Ed. 2d 626, 115 S. Ct. 1624, 1632 (1995). In *Lopez*, a case not involving the Eleventh Amendment, the Supreme Court struck down legislation founded on a sweeping interpretation of congressional power under the Interstate Commerce Clause. Clearly, education is uniquely important to the role of the states.

The Third Circuit also has acknowledged that providing education-related services is a core function of state government. In *Skehan v. State Sys. of Higher Educ.*, 815

F.2d 244 (3d Cir. 1987), the court held that the Pennsylvania State System of Higher Education, "a body corporate and politic" created by state law to administer educational institutions, *id.* at 247, was a state agency entitled to claim immunity under the Eleventh Amendment. *See id.* at 249. In so doing, the court observed: "Providing education has long been recognized as a function of state government." *Id.* at 248.

Of course, in this case, Florida Prepaid's supporting (and necessary) role in this activity is not within the exclusive province of the states. Indeed, there can be no doubt that Florida Prepaid and CSB, among others, are competing against one another for college-earmarked dollars. However, the mere fact that Florida Prepaid and private businesses offering prepaid tuition plans are similar in certain respects is not dispositive here.[18] *Cf. Close v. State of N.Y.*,

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[18] CSB impliedly suggests that the doctrine of judicial estoppel should bar Florida Prepaid from arguing that it is performing a core governmental function. *See* CSB's Reply Brief in Further Opposition to Defendant's Motions to Dismiss at 3 ("Florida Prepaid has acknowledged that this case involves a state's proprietary (as opposed to governmental) functions. Thus, Florida Prepaid's brief opposing [CSB's] motion to dismiss the libel counterclaims in the Lanham Act case, which the Court granted, bemoaned the state agency's vulnerability in this area . . . ."). However, there is nothing necessarily inconsistent with Florida Prepaid arguing that while it operates its Program like a competitive business, the Program itself is aimed at satisfying a core governmental function. Clearly, an aggressive marketing strategy or a desire for the Program to succeed does not transform an alter ego of the state into a private entity for purposes of Eleventh Amendment immunity. *See College Savings I*, 919 F. Supp. at 761 n.3 ("That a statement embodies or addresses a commercial matter certainly does not preclude a court from finding that it falls within the realm of public concern.") (citing, for example, *Curtis Publishing Co. v. Butts*, 388 U.S. 130, 162-70, 18 L. Ed. 2d 1094, 87 S. Ct. 1975 (1967) (Warren, C.J., concurring)). Accordingly, Florida Prepaid is not judicially estopped from claiming that it performs a core governmental function.

1996 U.S. Dist. LEXIS 12330, 1996 WL 481550, at *4 (N.D.N.Y. Aug. 19, 1996) (rejecting the notion that a state constructively consents to be sued by engaging in any area of activity that it does not exercise absolute control). Florida Prepaid was created by statute to perform a task found to be vital to the State of Florida:

> The Legislature recognizes that educational opportunity at the postsecondary level is a critical state interest. It further recognizes that educational opportunity is best ensured through the provision of postsecondary institutions that are geographically and financially accessible. Accordingly, it is the intent of the Legislature that a program be established through which many of the costs associated with postsecondary attendance may be paid in advance and fixed at a guaranteed level for the duration of undergraduate enrollment. It is similarly the intent of the Legislature to provide a program that fosters timely financial planning for postsecondary attendance and to encourage employer participation in such planning through program contributions on behalf of employees and the dependents of employees.

FLA. STAT. ANN. § 240.551(1). Certainly, providing a system to help people pay for the education of Florida citizens at Florida state universities and colleges is vital to Florida's attainment of its educational objectives in operating these institutions. Florida Prepaid provides a substantial benefit that directly and significantly promotes the educational objectives of the State of Florida. *See College Savings I*, 919 F. Supp. at 761 ("While Florida Prepaid purports to function in a proprietary capacity in administering the program, it nonetheless performs 'an essential government operation'

that has affected hundreds of thousands of citizens, within and outside of Florida.") (footnote omitted).

Moreover, we note that Florida Prepaid does not offer "investment contracts" to the public. Essentially, Florida Prepaid is offering contracts for college tuition and dormitory facilities. Unlike the program offered by CSB, the prepayment program offered by Florida Prepaid does not produce investment income. *See* FLA. STAT. § 240.551(6)(e)(1). According to section 5.01 of the Florida Prepaid Master Covenant, "this master covenant is not a debt instrument. Except for the circumstances in Paragraphs 5.02, 5.03 and 5.08, termination or default will entitle you [the purchaser] to a refund of the amount paid into the plan, minus reasonable administrative fees established by the Board. No interest will be refunded." Plainly, Florida Prepaid is not selling investment contracts, but rather highly specialized savings vehicles linked to the express purpose of providing financing for a higher education of Florida citizens at Florida schools:

> The State considers this an essential governmental operation to assist its citizens to access higher education. All legal and beneficial interests in the assets held by the trust fund are vested in the State for its exclusive benefit and the exclusive benefit of the colleges and universities; therefore, payments are guaranteed to be made on the beneficiary's behalf to the State college or university. Exercise of full benefits under the contract guarantees the beneficiary receipt of services and the beneficiary will not receive any funds.

Florida Prepaid Master Covenant § 5.08.

Based on the foregoing, the Court finds that Florida Prepaid is performing a role traditionally undertaken by state governments - making available affordable educational benefits. Therefore, the *Parden* doctrine, on its own terms, cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment.

2. *Parden* in the Wake of *Seminole Tribe*

Florida Prepaid argues in the alternative that, even assuming it is not engaged in "core governmental" activities, the doctrine of constructive waiver cannot survive the Supreme Court's recent decision in *Seminole Tribe of Florida v. Florida*, 134 L. Ed. 2d 252, 116 S. Ct. 1114 (1996) because the *Parden* doctrine presupposes that Congress has the authority pursuant to Article I of the Constitution to force a state to relinquish its Eleventh Amendment immunity as a condition of participating in a field subject to congressional regulation.[19] In order to address this contention, we turn first to the Supreme Court's decision in *Pennsylvania v. Union Gas*, 491 U.S. 1, 105 L. Ed. 2d 1, 109 S. Ct. 2273 (1989), which was expressly overruled by *Seminole Tribe*.

In *Union Gas*, a sharply divided Supreme Court found that Congress had the authority to abrogate States' Eleventh Amendment immunity when it enacted the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"). In the Union Gas plurality opinion, written by Justice Brennan, four members of the Court concluded that Congress has the authority to override States'

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[19] Of course, it would make no sense for Congress to impose a *Parden*-type waiver pursuant to Section 5 of the Fourteenth Amendment because Congress could utilize this same source of legislative power to eliminate immunity, making a finding of waiver unnecessary.

immunity when legislating pursuant to the Interstate Commerce Clause. 491 U.S. at 19. In Part III of its opinion, the plurality reasoned from language in *Parden* and *Employees* that "the power to regulate commerce includes the power to override States' immunity from suit . . . ." *Id.* at 14-15.

The deciding vote on the constitutional issue was cast by Justice White, who was somewhat less than clear about exactly what his concurrence meant. Justice White spent several pages explaining in partial dissent why he did not believe the statute clearly expressed a Congressional intent to abrogate the State's immunity, a position joined by three other Justices. Then, in part II of his concurrence, he devoted one short paragraph to the constitutional issue, saying only that "I agree with the conclusion reached by Justice Brennan in Part III of his opinion, that Congress has the authority under Article I to abrogate the Eleventh Amendment immunity of the States, although I do not agree with much of his reasoning." *Id.* at 57 (White, J., concurring in the judgment in part and dissenting in part).

Justice Scalia cast the deciding vote on the statutory construction issue, agreeing with Brennan's plurality opinion that the Congressional language at issue was sufficiently clear to override a state's Eleventh Amendment immunity assuming the authority to do so. *Id.* at 29 (Scalia, J., concurring in part and dissenting in part). However, joined by three other Justices, he dissented as to Congress's authority to abrogate when legislating pursuant to the Commerce Clause, lamenting that "instead of cleaning up the muddled Eleventh Amendment jurisprudence produced by *Hans*, the Court leaves that in place, and adds to the clutter the astounding principle that Article III limitations can be overcome by simply exercising

Article I powers." *Id.* at 44-45 (Scalia, J., concurring in part and dissenting in part).

Moreover, Justice Scalia, who formed part of the majority in *Seminole Tribe,*[20] argued that even viewing *Parden* as a waiver case could not save it from constitutional infirmity under the analysis that eventually triumphed in *Seminole Tribe*:

> It remains for me to consider whether the doctrine of waiver applies here. . .*Parden* is the only case in which we have held that the Federal Government can demand, as a condition to its permission of state action regulable under the Commerce Clause, the waiver of state sovereign immunity. Two terms ago, in *Welch*, we overruled *Parden* insofar as that case spoke to the clarity of language necessary to constitute such a demand. . . . We explicitly declined to address, however, the continued validity of *Parden's* holding that the Commerce Clause provided the constitutional power to make such a demand . . . . I would drop the other shoe.
>
> There are obvious and fatal difficulties in acknowledging such a power if no Commerce Clause power to abrogate state sovereign immunity exists. All congressional creations of private rights of action attach recovery to the defendant's commission of some act, or possession of some status, in a field where Congress has authority to regulate conduct. Thus, all federal prescriptions are, insofar as their prospective application is concerned, in a sense conditional, and – to the extent that the

[20] This portion of Justice Scalia's opinion was joined by Chief Justice Rehnquist, Justice O'Connor, and Justice Kennedy

> objects of the prescriptions consciously engage in the activity or hold the status that produces liability — can be redescribed as invitation to "waiver." . . . . At bottom, then, to acknowledge that the Federal Government can make the waiver of state sovereign immunity a condition to the State's action in a field that Congress has authority to regulate is substantially the same as acknowledging that the Federal Government can eliminate state sovereign immunity in the exercise of its Article I powers – that is, to adopt the very principle I have just rejected. There is little more than a verbal distinction between saying that Congress can make the Commonwealth of Pennsylvania liable to private parties for hazardous-waste cleanup costs on sites that the Commonwealth owns and operates, and saying the same thing but adding at the end "if the Commonwealth chooses to own and operate them." If state sovereign immunity has any reality, it must mean more than this.

Id. at 42-44 (Scalia, J., concurring in part and dissenting in part) (emphasis added).

When *Union Gas* is read in light of *Seminole Tribe*, wherein the Supreme Court overruled the principle that Congress may abrogate Eleventh Amendment immunity pursuant to its Article I powers, *see Seminole Tribe*, 116 S. Ct. at 1131, it is clear, by implication, that Congress may not employ its Article I powers to condition a state's participation in a particular market or industry on that state's waiver of its Eleventh Amendment immunity. *See id.* at 1128 ("As the dissent in *Union Gas* recognized, the plurality's conclusion – that Congress could under Article I expand the scope of the federal courts' jurisdiction under Article III– 'contradicted our

unvarying approach to Article III as setting forth the exclusive catalog of permissible federal court jurisdiction.'") (quoting *Union Gas*, 491 U.S. at 39) (Scalia, J., concurring in part and dissenting in part)).

As the *Union Gas* Court noted, *Parden* was based on the conclusion that "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce," and that "by empowering Congress to regulate commerce, . . . the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation." 491 U.S. at 14 (quoting *Parden*, 377 U.S. at 191, 192). This theory of surrender, however, has been explicitly rejected by the Court in *Seminole Tribe*. Indeed, the *Seminole Tribe* Court stated, in no uncertain terms, that "the Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction." 116 S. Ct. at 1131-32. It necessarily follows, therefore, that *Parden's* underpinnings are no longer viable. Congress cannot achieve indirectly, through "waiver," what it cannot do directly, through express abrogation. "If state sovereign immunity has any reality, it must mean more than this." *Union Gas*, 491 U.S. at 44 (Scalia, J., concurring in part and dissenting in part). Thus, we conclude that *Parden* has been overruled by implication *by Seminole Tribe* to the extent that *Parden* held that Congress, acting pursuant to the powers conferred upon it in Article I of the Constitution, may explicitly condition a state's participation

in a particular market on its waiver of immunity from suit.[21] Accordingly, the *Parden* doctrine cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment.

E. ABROGATION

Lastly, we consider the argument that Congress has abrogated the States' Eleventh Amendment immunity when amending the Patent Act and the Lanham Act. When determining whether Congress has abrogated the States' Eleventh Amendment immunity, we must conduct a two-part inquiry: "first, whether Congress has 'unequivocally expressed its intent to abrogate the immunity,' and second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Seminole Tribe*, 116 S. Ct. at 1123 (quoting *Green v. Mansour*, 474 U.S. 64, 68, 88 L. Ed. 2d 371, 106 S. Ct. 423 (1985)). Thus, we must consider each of these questions in turn.

1. Unequivocal Expression of Intent to Abrogate Immunity

"Congress' intent to abrogate the States' immunity from suit must be obvious from 'a clear legislative statement.'" 116 S. Ct. at 1123 (quoting *Blatchford v. Native Village of Noatak*

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[21] The Government incorrectly asserts that "the Supreme Court has referred favorably to the waiver aspect of *Parden*" in *Seminole Tribe*. Intervenor's Brief at 9. The basis for this assertion is the rather offhand observation that *Parden* represents "the unremarkable . . . proposition that the States may waiver their sovereign immunity." *Seminole Tribe*, 116 S. Ct. at 1128. However, when this comment is read in light of *Seminole Tribe*'s holding that the bounds of Article III may only be expanded by Congress when its enacts appropriate legislation pursuant to § 5 of the Fourteenth Amendment, it is clear that the Court's passing reference to *Parden* can only mean that actual, deliberate waiver by a state remains possible. The Court was careful not to endorse the mechanism for waiver created by *Parden*, that is, the congressional regulatory approach.

and Circle Village, 501 U.S. 775, 786, 115 L. Ed. 2d 686, 111 S. Ct. 2578 (1991)). "A general authorization for suit in federal court is not the kind of unequivocal statutory language sufficient to abrogate the Eleventh Amendment." *Atascadero State Hosp.*, 473 U.S. at 246; accord *Blatchford*, 501 U.S. at 786 n.4 ("The fact that Congress grants jurisdiction to hear a claim does not suffice to show Congress has abrogated all defenses of that claim."). Thus, "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute." *Dellmuth v. Muth*, 491 U.S. 223, 227-28, 105 L. Ed. 2d 181, 109 S. Ct. 2397 (1989); *see* also Welch, 483 U.S. at 474.

a. Abrogation of Immunity Under the Patent and Plant Variety Protection Remedy Clarification Act

The Patent and Plant Variety Protection Remedy Clarification Act, Pub.L. No. 102-560, 106 Stat. at 4230, which amended the Patent Act, provides:

> Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or non-governmental entity, for infringement of a patent . . . or for any other violation under this title.

Pub.L. No. 102-560, § 2(a)(2), 106 Stat. at 4230 (codified at 35 U.S.C. § 296(a)). This language is even clearer than that which the Supreme Court recently found sufficient in *Seminole Tribe*, where the statute did not explicitly refer to

the Eleventh Amendment. *See Seminole Tribe*, 116 S. Ct. at 1123-24. Thus, the Patent Act provision challenged here is more than clear enough to abrogate the States' Eleventh Amendment immunity for suit thereunder in federal court. *See Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 941-42 (Fed. Cir. 1993) (finding that the current Patent Act is sufficiently clear to abrogate state immunity), *cert. denied sub. nom. Regents of Univ. of Ca. v. Genentech, Inc.*, 510 U.S. 1140, 127 L. Ed. 2d 434, 114 S. Ct. 1126 (1994)).

b. Abrogation of Immunity Under the 1992 Trademark Remedy Clarification Act

The 1992 Trademark Remedy Clarification Act, Pub.L. 102-542, 106 Stat. 3567 (1992), which amended the Lanham Act, provides:

> As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the same provisions of this Act in the same manner and to the same extent as any nongovernmental entity.

Pub.L. No. 102-542, 106 Stat. 3567 (1992). This language is also an unequivocal expression of Congress's intent to abrogate the Eleventh Amendment. *See Chavez v. Arte Publico Press*, 59 F.3d 539, 546 (5th Cir. 1995) (noting that the Lanham Act was "recently amended to express Congress's intent to abrogate State immunity from suit . . . ."), *cert. granted and judgment vacated sub nom. Univ. of Houston v. Chavez*, 134 L. Ed. 2d 772, 116 S. Ct. 1667, *cert. denied*, 134 L. Ed. 2d 776, 116 S. Ct. 1672 (1996).

2. Abrogation Made Under a Proper Exercise of Authority

Because Congress clearly and unequivocally expressed its intention to abrogate Eleventh Amendment immunity both under the Patent Act and the Lanham Act, the Court must next consider whether this abrogation was done under a proper exercise of Congress's authority. As noted above, after *Seminole Tribe*, the only remaining authority for Congressional abrogation of the States' immunity is the enforcement provision of the Fourteenth Amendment. 116 S. Ct. at 1128.

Section 5 of the Fourteenth Amendment provides that "Congress shall have the power to enforce, by appropriate legislation, the provisions of this article." U.S. CONST. amend. XIV, § 5. The Thirteenth, Fourteenth and Fifteenth Amendments "were specifically designed as an expansion of federal power and an intrusion on state sovereignty." *City of Rome v. United States*, 446 U.S. 156, 179, 64 L. Ed. 2d 119, 100 S. Ct. 1548 (1980).

The Supreme Court first considered the meaning of Section 5 in *Ex parte Virginia*, 100 U.S. (10 Otto) 339, 25 L. Ed. 676 (1879). There, the Court upheld the constitutionality of an act prohibiting the disqualification of grant or petit jurors on account of race. *Id.* at 345-46. The Court declined to read narrowly the power granted by Section 5:

> Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain, and to secure to all persons the enjoyment of perfect equality of civil rights and the equal protection of the laws against

> State denial or invasion, if not prohibited, is brought within the domain of congressional power.

Id.

The civil rights legislation of the 1960s again raised questions regarding the power of Congress under the Civil Rights Amendments. In *Katzenbach v. Morgan*, 384 U.S. 641, 648, 16 L. Ed. 2d 828, 86 S. Ct. 1717 (1966), the Court rejected the argument that under Section 5 Congress could only prohibit acts that would violate the substantive provisions of the Fourteenth Amendment. Referring to *McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 421, 4 L. Ed. 579 (1819), the Court held that the inquiry into what is "appropriate legislation" under Section 5 is whether the statute "may be regarded as an enactment to enforce [the Fourteenth Amendment], whether it is 'plainly adapted to that end' and whether it is not prohibited by but is consistent with 'the letter and spirit of the constitution.'" 384 U.S. at 651.

Congress has the power to enforce all the provisions of the Fourteenth Amendment, not just the Equal Protection Clause. *United States v. Price*, 383 U.S. 787, 789 & n.2, 16 L. Ed. 2d 267, 86 S. Ct. 1152 (1966) (noting that Section 5 empowers Congress to enforce "every right guaranteed by the Due Process Clause of the Fourteenth Amendment"); *Flores v. City of Boerne*, 73 F.3d 1352, 1358 (5th Cir.), *cert. granted*, 117 S. Ct. 293 (1996) (same); *see also* CONG. GLOBE, 42d Cong., 1st Sess. App. at 83 (1871) ("The Fourteenth Amendment closes with the words, 'the Congress shall have power to enforce, by appropriate legislation, the provisions of this article' – the whole of it, sir; all of the provisions of the article; every section of it.") (statement of Rep. Bingham). "We reject the notion that there is any relevant hierarchy of constitutional rights within

the Fourteenth Amendment."[22] *Flores*, 73 F.3d at 1358 (citing *Caplin & Drysdale, Chartered v. United States*, 491 U.S. 617, 628, 105 L. Ed. 2d 528, 109 S. Ct. 2646, 109 S. Ct. 2667 (1989)).

While Congress's enforcement power is broad, however, the Court in *Oregon v. Mitchell*, 400 U.S. 112, 27 L. Ed. 2d 272, 91 S. Ct. 260 (1970), pointed out that it is not unlimited:

> As broad as the congressional enforcement power is, it is not unlimited. Specifically, there are at least three limitations upon Congress' power to enforce the guarantees of the Civil War Amendments. First, Congress may not by legislation repeal other provisions of the Constitution. Second, the power granted to Congress was not intended to strip the States of their power to govern themselves or to convert our national government of enumerated powers into a central government of unrestrained authority over every inch of the whole Nation. Third, Congress may only "enforce" the provisions of the amendments and may do so only by "appropriate legislation." Congress has no power under the enforcement sections to undercut the amendments' guarantees of personal equality and freedom from discrimination, or to undermine those

[22] Thus, to the extent that Florida Prepaid argues that the Fourteenth Amendment must be restricted to its historical motivation, this argument must be rejected. *See Flores*, 73 F.3d at 1358. But cf. *Wilson-Jones v. Caviness*, 99 F.3d 203, 210 (6th Cir. 1996) ("Examining the FLSA itself, there is no sufficiently strong logical connection between the aim of the act – to increase the wages and shorten the hours of certain employees – and central, obvious Fourteenth Amendment concerns.").

> protections of the Bill of Rights which we have held the Fourteenth Amendment made applicable to the States.

Id. at 128-29 (opinion of Black, J.). *Cf. Wilson-Jones*, 99 F.3d at 209 ("It is clear to us that these three Katzenbach factors cannot be kept so permissive as to make them collapse into the 'rationally related' test generally used for the enforcement clauses of the other constitutional amendments. . . . If we were to say that an act is valid if it is rationally related to achieving equal protection of the laws, then § 5 becomes a license to Congress to pass any sort of legislation whatsoever.").

a. Patent Act

Whether a statute is "appropriate legislation" for enforcing the Fourteenth Amendment is subject to a deferential standard. "Correctly viewed, [Section 5 of the Amendment] is a positive grant of legislative power authorizing Congress to exercise its discretion in determining whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment." *Katzenbach*, 384 U.S. at 651. Thus, if rights protected by the Patent Act are correctly considered "property," legislation making the states liable in federal court for violating that statute would "plainly" be "appropriate" for enforcing the Fourteenth Amendment. *See id.* The ultimate constitutional issue in this case is, therefore, whether the interests sought to be protected by the

Patent Act are "property" for purposes of the Fourteenth Amendment.[23]

"That a patent is property, protected against appropriation both by individuals and by government, has long been settled." *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 89 L. Ed. 322, 65 S. Ct. 373 (1945); *Jacobs Wind Elec. Co. v. Dep't of Transp.*, 626 So. 2d 1333, 1337 (Fla. 1993). The common law protects patents as property rights, and patents have traditionally been classified as one form of "intellectual property." *See Markman v. Westview Instruments, Inc.*, 134 L. Ed. 2d 577, 116 S. Ct. 1384, 1390-92 (1996) (discussing common law of patent enforcement). Indeed, the Patent Act explicitly recognizes that

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[23] The legislative history of the Patent Act amendments states that they were enacted under the Commerce Clause, the Patent Clause and the Fourteenth Amendment. *See* S. Rep. No. 102-280, 102d Cong., 2d Sess. 7-8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3093-94. Although such a recitation of authority may be helpful in interpreting legislation, it is not required for its validity. *See F.C.C. v. Beach Communications, Inc.*, 508 U.S. 307, 315, 124 L. Ed. 2d 211, 113 S. Ct. 2096 (1993) (Court "never require[s] a legislature to articulate its reasons for enacting a statute"). Nor is a statute necessarily rendered invalid when Congress gratuitously recites its bases, and one or more of those bases turns out to be improper: If federal legislation can be upheld as an exercise of federal power under any provision of the Constitution, the courts are bound to uphold it. *See Usery v. Allegheny County Inst. Dist.*, 544 F.2d 148, 155 (3d Cir. 1976), *cert. denied sub nom. Allegheny County Inst. Dist. v. Marshall*, 430 U.S. 946, 51 L. Ed. 2d 793, 97 S. Ct. 1582 (1977). For the same reasons, that a statute was originally enacted under one provision of the Constitution should not foreclose relying on a different provision to enact an amendment to the statute--whether or not the amendment itself refers to that provision. *See Ramirez v. Puerto Rico Fire Serv.*, 715 F.2d 694, 698 (1st Cir. 1983) ("The omission of any ritualistic incantation of powers by the Congress is not determinative, for there is no requirement that the statute incorporate buzz words such as 'Fourteenth Amendment' or 'section 5' . . . .").

patents "have the attributes of personal property." 35 U.S.C. § 261; *see* also *Carl Schenck, A.G. v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983) ("The patent right is but the right to exclude others, the very definition of 'property.'").

In *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985), for example, the plaintiffs alleged that certain procedures of the Patent and Trademark Office violated the Fifth Amendment, which, like the Fourteenth Amendment, forbids the government from depriving persons of property without due process of law. *Id.* at 596. Although the court ultimately rejected the challenge, it began by observing that the constitutional provision did apply:

> It is beyond reasonable debate that patents are property. In *Consolidated Fruit-Jar Co. v. Wright*, [94 U.S. (4 Otto) 92, 24 L. Ed. 68] (1876) the Supreme Court stated:
>
> > a patent for an invention is as much property as a patent for land. The right rests on the same foundation and is surrounded and protected by the same sanctions.
>
> 758 F.2d at 599.

Furthermore, the unlicensed use of a patented invention by the United States constitutes an uncompensated taking of the patentee's property, in violation of the Fifth Amendment. *See James v. Campbell*, 104 U.S. 356, 357-58, 26 L. Ed. 786 (1881) (equating invention patent with land patent for purposes of takings clause); *Genentech, Inc. v. Regents of Univ. of Cal.*, 939 F. Supp. 639, 643 (S.D. Ind. 1996) ("[a] patent is a protectable property right and to permit [a] State to infringe that property right without redress for the patent owner would deprive [the] owner of property without due

process of law."); *see* also *Hughes Aircraft Co. v. United States*, 86 F.3d 1566, 1571 (Fed. Cir. 1996); accord Jacobs Wind Elec. Co., 626 So. 2d at 1337 (because a patent is property, the holder can assert takings and conversion claims).

Notwithstanding this precedent, Florida Prepaid raises several unpersuasive arguments why the Fourteenth Amendment cannot justify the statute challenged here. Specifically, defendant contends that: (1) the Fourteenth Amendment can only be used to remedy "insidious discrimination"; (2) the states did not relinquish immunity for patent actions by ratifying the Fourteenth Amendment; (3) the Fourteenth Amendment does not require compensation for merely negligent conduct; and (4) the Supreme Court's decision in *Seminole Tribe* forecloses reliance on the Fourteenth Amendment to abrogate state immunity under this statute. These arguments will be addressed *seriatim*.

Defendant first argues that the Fourteenth Amendment can be used only to remedy the kind of "insidious discrimination" against the newly-freed slaves that prompted its adoption. *See* Defendant's Patent Brief at 16; Defendant's Patent Reply Brief at 11, 16. However, the language of the Amendment reaches far beyond that original objective, and the Supreme Court has repeatedly applied it, according to its terms, outside the context of civil rights. *See, e.g., Tulsa Professional Collection Servs., Inc. v. Pope*, 485 U.S. 478, 485, 99 L. Ed. 2d 565, 108 S. Ct. 1340 (1988) (creditor's right to notice from debtor's estate); *Cleveland Bd. of Educ. v. Loudermill*, 470 U.S. 532, 538-39, 84 L. Ed. 2d 494, 105 S. Ct. 1487 (1985) (right to continued employment); *Mennonite Bd. of Missions v. Adams*, 462 U.S. 791, 798-800, 77 L. Ed. 2d 180, 103 S. Ct. 2706 (1983) (mortgagee's right to notice before tax sale of mortgaged realty); *Mathews v.*

Eldridge, 424 U.S. 319, 332, 47 L. Ed. 2d 18, 96 S. Ct. 893 (1976) (right to continued receipt of disability benefits). Indeed, if defendant were correct that the Fourteenth Amendment must be restricted to its historical motivation, then the Amendment could be used only to prevent discrimination on the basis of race and not on any other basis, such as gender or national origin. *See Slaughter-House Cases*, 83 U.S. (16 Wall.) 36, 71-72, 21 L. Ed. 394 (1872).

Second, Florida Prepaid contends that the states could not have relinquished immunity for patent actions by ratifying the Fourteenth Amendment, because they had already surrendered "all power over patents" in ratifying Article I of the Constitution. *See* Defendant's Patent Brief at 9. Defendant misses the point. Although the states, through Article I, relinquished the power to grant patents, they did not thereby surrender their immunity against federal suit for depriving persons of property without due process of law. *See* U.S. CONST. art. I, § 8, cl. 8. This they did surrender, however, in ratifying the Fourteenth Amendment.

Third, defendant points out that patent infringement is a tort for which the patentee need not prove specific intent, whereas the Fourteenth Amendment does not require compensation for merely negligent conduct. *See* Defendant's Patent Brief at 12-14 (citing *Daniels v. Williams*, 474 U.S. 327, 88 L. Ed. 2d 662, 106 S. Ct. 662 (1986) (rejecting prisoner's Fourteenth Amendment claim for injury caused by deputy's negligent placement of pillow)). The principal weakness of this argument is that CSB's patent infringement action does not seek compensation for a violation of the Fourteenth Amendment. The issue here is not whether the defendant committed a constitutional tort, but whether, in enacting "appropriate legislation" to enforce the Fourteenth

Amendment, Congress can make the states amenable to suit in federal court for allegedly violating certain property rights. Moreover, Congress's enforcement power under Section 5 is not, in fact, limited to intentional violations, but includes actions that have only the effect (but not the intent) of violating the Fourteenth Amendment. *See Flores*, 73 F.3d at 1359-60. [24]

Finally, in an effort to avoid the conclusion that the challenged provisions of the Patent Act are valid exercises of Fourteenth Amendment power, Florida Prepaid asserts that the Supreme Court's decision in *Seminole Tribe* forecloses reliance on the Fourteenth Amendment to abrogate state immunity under this statute. Specifically, defendant (1) relies on a passage from Justice Stevens' dissenting opinion in *Seminole Tribe* and on the majority's supposed response to that passage; (2) contends that *Seminole Tribe's* overruling of a prior decision (*Union Gas*) also overruled dictum in that earlier decision; and (3) asserts that the Fourteenth Amendment does not give Congress power to abrogate state immunity for violations of the Patent Act because *Seminole Tribe* fails to say that it does.

First, Florida Prepaid attempts to deduce support from the statement of a dissenting Justice in *Seminole Tribe*, coupled with the majority's partial reaction to that statement. In an opinion in which no other Justice joined, Justice Stevens stated that the Court's decision would "prevent[] Congress from providing a federal forum for a broad range of actions against States, from those sounding in copyright and patent law, to those concerning bankruptcy, environmental law, and the regulation of our vast national

[24] In any event, the plaintiff here alleges that defendant is infringing plaintiff's patent "willfully." *See* Patent Compl. ¶ 7.

economy." *Seminole Tribe*, 116 S. Ct. at 1134 (Stevens, J., dissenting). Florida Prepaid contends that "the majority did not dispute" this statement, *see* Defendant's Patent Brief at 11, 14; indeed, relying on a footnote in the majority opinion, defendant goes so far as to say that "the majority agreed that the decision would prevent patent suits against the states." *Id.* at 14 (emphasis added) (citing *Seminole Tribe*, 116 S. Ct. at 1131 n.16).

Nothing of the sort follows from *Seminole Tribe*. To begin with, the footnote to which defendant refers says nothing about the Patent Act: "Justice Stevens understands our opinion to prohibit federal jurisdiction over suits to enforce the bankruptcy, copyright, and antitrust laws against the States." *See Seminole Tribe*, 116 S. Ct. at 1131 n.16. Furthermore, the majority's footnote does not actually respond to Justice Stevens's statement as to the effect of the Court's holding on other statutes. Rather, it only attempts to undercut the impact of Justice Stevens's contention, based partly on the fact that the statutes referred to did not expressly abrogate state immunity. *See id.* The 1992 amendments to the Patent Act, however, have removed any doubt in that regard as far as this statute is concerned. The Court's failure to respond to Justice Stevens's assertion does not, contrary to defendant's argument, manifest an "indifference to constitutional doctrine" of the part of the majority. *See* Defendant's Patent Reply Brief at 8. Rather, the Court frequently leaves unanswered questions that are suggested by the facts but not presented for decision – including questions that dissenting and concurring opinions attempt to answer. *See, e.g., McNeal v. Culver*, 365 U.S. 109, 117, 5 L. Ed. 2d 445, 81 S. Ct. 413 (1961) ("The question treated in the separate concurring opinion only lurks in the record, as it was not raised, briefed or argued here, and therefore we do not reach or express any views upon it.").

Defendant also contends that *Seminole Tribe* forecloses reliance on the Fourteenth Amendment because the Court's earlier decision in *Union Gas* had observed that the Fourteenth Amendment gave Congress power to abrogate state immunity, and *Seminole Tribe* expressly overruled *Union Gas*. *See* Defendant's Patent Brief at 13; *see also Union Gas*, 491 U.S. at 15-16. The passage from *Union Gas* to which defendant refers, however, merely recited a proposition that had been established by other decisions and that, particularly in light of *Seminole Tribe*, remains valid today. *See Union Gas*, 491 U.S. at 7 (*citing Atascadero State Hosp.*, 473 U.S. at 242); *see also Fitzpatrick*, 427 U.S. at 456. *Seminole Tribe* only overruled the holding in *Union Gas*, which was that Congress could not abrogate state immunity under the Commerce Clause. *See Seminole Tribe*, 116 S. Ct at 1128; *Union Gas*, 491 U.S. at 19-20.

Finally, Florida Prepaid suggests that if the Fourteenth Amendment gave Congress power to abrogate state immunity for violations of the Patent Act, then the Supreme Court would surely have said so in *Seminole Tribe*. *See* Defendant's Patent Brief at 12-13. Under American jurisprudence, however, the opposite is true. There was no reason for the Court to comment on the authority for abrogating immunity under a statute that was not before the Court. *See Seminole Tribe*, 116 S. Ct. at 1125 (petitioner did not challenge appellate court's conclusion that statute was not enacted pursuant to the Fourteenth Amendment). To do otherwise would have been to issue an advisory opinion. *See Preiser v. Newkirk*, 422 U.S. 395, 401, 45 L. Ed. 2d 272, 95 S. Ct. 2330 (1975) (lack of power to render advisory opinions). Accordingly, *Seminole Tribe* does not foreclose reliance on the Fourteenth Amendment.

In sum, a patent is "property" for purposes of the Fourteenth Amendment, and Congress can, under that

Amendment, abrogate Eleventh Amendment immunity for claims under the Patent Act. Moreover, Congress has the power to enforce all of the provisions of the Fourteenth Amendment, including the Due Process Clause. It necessarily follows, therefore, that Congress may, pursuant to Section 5 of the Fourteenth Amendment, enact appropriate legislation to make states amenable to suit in federal court for allegedly depriving patentees of their patent property without compensation and without due process of law. Accordingly, this Court finds that the Patent Act amendments, which abrogate the States' Eleventh Amendment immunity, are "appropriate legislation" under Section 5 of the Fourteenth Amendment. As such, defendant's motion to dismiss is denied.

b. Lanham Act

The final issue before this Court is whether the interests sought to be protected by the "false advertising prong" of the Lanham Act are "property" for purposes of the Fourteenth Amendment.[25] *See Katzenbach*, 384 U.S. at 651. As

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[25] The false advertising prong of the Lanham Act is separate and distinct from the trademark infringement prong. *See, e.g., Stanfield v. Osborne Indus.*, 52 F.3d 867, 873 (10th Cir.) (finding "two distinct bases of liability under [15 U.S.C.] section 1125"), *cert. denied*, 133 L. Ed. 2d 217, 116 S. Ct. 314 (1995); *Agee v. Paramount Communications, Inc.*, 853 F. Supp. 778, 790 (S.D.N.Y. 1994) (noting that "section 43(a) [of the Lanham Act] provides two distinct causes of action"), *rev'd on other grounds*, 59 F.3d 317 (1995).

In the present matter, the Lanham Act claims brought against Florida Prepaid are complaints about alleged false advertising:

> This action for false advertising and unfair competition arises under the trademark laws of the United States, 15 U.S.C. §§ 1051 *et seq.*, and the common law of unfair competition, and concerns material misrepresentations made in connection with the advertising and promotion of the Florida Prepaid College Program.

Lanham Act Compl. ¶ 1. CSB has not asserted any claims for trademark infringement.

a threshold matter, however, we must first determine what interests are protected by this prong of the Lanham Act. [26]

The Lanham Act was enacted "to protect persons engaged in such commerce against unfair competition." 15 U.S.C. § 1127; *see Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1382 (5th Cir. 1996). Section 43(a) of the Lanham Act provides in relevant part that:

> Any person who . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or another person's goods, services, or commercial activities shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a).

Thus, the text of the statute makes clear that the false advertising prong of Section 43(a) is "designed to protect the right of the consumer to be told the truth." 3 MCCARTHY ON TRADEMARKS § 27.04[1][b] at 27-39); *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 619 F. Supp. 1204, 1218 (D.N.J. 1985) (same); *see also Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939 (3d Cir. 1993) ("Because honesty and fair play are prominent arrows in America's quiver of commercial and personal ideals, Congress enacted Section 43(a) of the Lanham Act 'to stop the kind of unfair competition that consists of lying about goods or services.'"). "That is, 'Quite clearly, the Congressional intention was to allow a private suit by a competitor to stop the kind of unfair competition

[26] The legislative history of the Lanham Act amendments states that they were enacted under the Commerce Clause and the Fourteenth Amendment. *See* S. Rep. No. 102-280, 102d Cong., 2d Sess. 7-8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3093-94.

that consists of lying about goods or services, when it occurs in interstate commerce.'" 3 MCCARTHY ON TRADEMARKS § 27.04[1][b] at 27-39 (citing *Skil Corp. v. Rockwell Int'l Corp.*, 375 F. Supp. 777, 784 (N.D. Ill. 1974)).

Having determined that the false advertising prong of the Lanham Act essentially protects the "right to be free from false advertising," we now must ask whether this right is "property" for purposes of the Fourteenth Amendment. Clearly it is not. An interest in being free from alleged false advertising simply does not qualify as a property right for purposes of the Due Process Clause of the Fourteenth Amendment, or indeed for any other purpose. [27] However laudable Congress's purpose may be, *see Coca-Cola Co. v. Procter & Gamble Co.*, 822 F.2d 28, 31 (6th Cir. 1987), the false advertising prong of the Lanham Act does not implicate any of the substantive guarantees of the Fourteenth Amendment, and therefore cannot be the basis for the abrogation of Eleventh Amendment immunity.

Moreover, none of the cases cited by plaintiff, *see* CSB's Lanham Act Brief at 33-36, holds that the "right" to be free from a competitor's alleged false advertising constitutes a property right [28] *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649 (3d Cir. 1954), did not involve simple false advertising of the type alleged here, but rather a claim that the defendant had used a picture of the plaintiff's dress in its promotions. *See id.* at 649-50. Moreover, the opinion of

[27] We have uncovered no precedent, federal or state, even discussing whether the right to be free of unfair competition is "property."

[28] General discussions of "the Lanham Act" or "unfair competition" are insufficient. This case involves only a claim for false advertising by a competitor, not the other varieties of Lanham Act infringement claims or unfair competition claims that plaintiff's cases consider.

the Third Circuit said nothing about any property rights. Similarly, in *AT & T v. Winback & Conserve Program, Inc.*, 42 F.3d 1421 (3d Cir. 1994), *cert. denied*, 131 L. Ed. 2d 757, 115 S. Ct. 1838 (1995), the court noted, "AT & T's allegations are an amalgam of a classic section 43(a) claim alleging misuse of a mark, a claim of false advertising pursuant to 15 U.S.C. § 1125(a)(2), and a claim of passing off." *Id.* at 1428 n.9. Again, even in the language quoted by CSB, *see* CSB's Lanham Act Brief at 34-35, the court mentioned only causes of action for unfair competition, and said nothing about "property."

Plaintiff's reference to *SK & F Co. v. Premo Pharmaceutical Lab., Inc.*, 625 F.2d 1055 (3d Cir. 1980) is also unavailing. SK & F Co., the court was a trade dress case in which the defendant allegedly used the same color for its pills as the plaintiff manufacturer did. *See id.* at 1057-59. The court discussed the tort of unfair competition, but said nothing about property rights. Moreover, *International News Service v. Associated Press*, 248 U.S. 215, 63 L. Ed. 211, 39 S. Ct. 68 (1918), did not involve false advertising, but rather infringement so severe that it amounted to theft. The defendant was accused of "pirating" the plaintiff's news stories through illegal copying, the bribing of employees, and other nefarious means. *See id.* at 231. Finally, the right of publicity, whether of a "human cannonball" or not, *see Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562, 53 L. Ed. 2d 965, 97 S. Ct. 2849 (1977), has nothing to do with the instant case. Florida Prepaid is alleged to have made misleading statements about its own program, not to have misappropriated some element of plaintiff's product. Thus, *Zacchini* is also inapposite.

Finally, we are unaware of any authority suggesting that Congress may, by simple fiat, abruptly declare that a simple

statutory cause of action, which traditionally has not been understood to involve any kind of property, now encompasses a "property right" to which the Fourteenth Amendment applies. Indeed, if Congress has such power, it could easily "reverse" the outcome in *Seminole Tribe* by inserting into some staff report a reference regarding the importance of using the Fourteenth Amendment to protect the "right" to have a state negotiate over a gaming compact. To quote Justice Scalia, "If state sovereign immunity has any reality, it must mean more than this." *Union Gas*, 491 U.S. at 44 (concurring in part and dissenting in part).

We conclude by reiterating that this case does not involve property that Congress may protect under the Fourteenth Amendment. Congress has no power, under the Fourteenth Amendment or any other provision of the Constitution, to strip the states of their Eleventh Amendment immunity and subject them to suits in federal court for false advertising. Accordingly, the Trademark Remedy Clarification Act is unconstitutional as applied in this case, and plaintiff's Lanham Act Claim must be dismissed for lack of subject matter jurisdiction. Furthermore, because there has been no suggestion that Florida Prepaid's Eleventh Amendment immunity has been – or could be – stripped with respect to CSB's common law unfair competition claim, this claim must also fail and plaintiff's Lanham Act Complaint is dismissed in its entirety.

III. CONCLUSION

For the foregoing reasons, the Court will: (1) deny defendant's motion to dismiss plaintiff's Patent Act Claim; (2) grant defendant's motion to dismiss plaintiff's Lanham Act Claim; and (3) dismiss plaintiff's Lanham Act Complaint in its entirety. An appropriate Order is filed herewith.

ORDER

For the reasons set forth in this Court's Memorandum Opinion,

IT IS this 13th day of DECEMBER, 1996

ORDERED that defendant's motion to dismiss plaintiff's Patent Infringement Claim (Civ. No. 94-5610) pursuant to FED. R. CIV. P. 12(h)(3) be and is hereby DENIED; and it is further ORDERED that defendant's motion to dismiss plaintiff's Lanham Act Claim (Civ. No. 95-4516) be and is hereby GRANTED; and it is further

ORDERED that plaintiff's Lanham Act Complaint (Civ. No. 95-4516) be and is hereby DISMISSED in its ENTIRETY.

APPENDIX C

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 97-5055 and 97-5086

COLLEGE SAVINGS BANK,
Appellant in No. 97-5055

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

COLLEGE SAVINGS BANK

UNITED STATES OF AMERICA,
Intervenor-Plaintiff in D.C.

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD

United States of America,

Appellant in No. 97-5086

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civ. No. 95-4516)

SUR PETITION FOR REHEARING

BEFORE BECKER, *Chief Judge*, and SLOVITER, STAPLETON, MANSMANN, GREENBERG, SCIRICA, COWEN, NYGAARD, ALITO, ROTH, LEWIS, MCKEE, RENDELL, and ALARCON*, *Circuit Judges*

The petition for rehearing filed by the appellant, College Savings Bank, in the above captioned matter having been submitted to the judges who participated in the decision of this court and to all the other available circuit judges of the court in regular active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service not having voted for rehearing by the court en banc, the petition for rehearing is denied.

BY THE COURT:

[signature illegible]
Circuit Judge

DATED: FEB 17 1998

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* Honorable Arthur L. Alarcon, Senior Judge of the United States Court of Appeals for the Ninth Circuit, sitting by designation. Judge Alarcon's vote is limited to the application before the original panel.

APPENDIX D

United States Court of Appeals for the Federal Circuit

97-1246

COLLEGE SAVINGS BANK,
Plaintiff-Appellee,

and

THE UNITED STATES,
Plaintiff-Appellee,

v.

FLORIDA PREPAID POST-SECONDARY EDUCATION EXPENSE BOARD,
Defendant-Appellant.

DECIDED: June 30, 1998

Before CLEVENGER, RADER, and BRYSON, *Circuit Judges*.

CLEVENGER, *Circuit Judge*.

This case requires us to determine whether the Eleventh Amendment bars a federal suit for patent infringement against a nonconsenting state. The district court held that it did not and denied Florida Prepaid Postsecondary Education Expense Board's (Florida Prepaid's) motion to dismiss for lack of subject matter jurisdiction. Because Congress clearly expressed its intent to abrogate state sovereign immunity for patent infringement suits brought in federal courts, and because

Congress abrogated state immunity pursuant to a valid exercise of power, we affirm the district court's decision denying Florida Prepaid's motion to dismiss. Consequently, we do not reach College Savings Bank's (College Savings') arguments that Florida Prepaid waived its sovereign immunity either by participating in the patent system or by failing to raise the sovereign immunity defense earlier in the litigation.

Appealed from: United States District Court for the District of New Jersey

Judge Garrett E. Brown, Jr.

I.

Procedural Posture

College Savings is a New Jersey chartered savings bank located in Princeton, New Jersey. Since 1987, College Savings has sold a certificate of deposit contract known as the CollegeSure® CD. The purpose of the CollegeSure® CD is to help individuals save money for the cost of college education expenses. College Savings guarantees returns sufficient to fund the uncertain future cost of education. The CollegeSure® CD is administered using an apparatus and methods disclosed in College Savings' U.S. Patent No. 4,722,055. Florida Prepaid, a body corporate of the State of Florida, administers a similar investment program aimed at aiding individuals in funding the cost of Florida public colleges and universities.[1] *See* Fla. Stat. § 240.551(l), (3). College Savings claims that,

[1] The district court concluded that, for purposes of immunity from suit, Florida Prepaid was an arm of the State of Florida. *See Edelman v. Jordan*, 415 U.S. 651, 663 (1974). We agree with the district court, and the parties have not contested this conclusion.

in the course of administering its investment program, Florida Prepaid has directly and indirectly infringed College Savings' patent.

On November 7, 1994, College Savings brought an infringement action against Florida Prepaid in the United States District Court for the District of New Jersey pursuant to the Patent and Plant Variety Protection Remedy Clarification Act (Patent Remedy Act), § 2, 35 U.S.C. §§ 271 (h), 296 (1994), which explicitly provides that states may be sued for patent infringement in the federal courts. *Pendente lite*, the Supreme Court handed down its decision in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), which overruled *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), and held that Congress could not abrogate the sovereign immunity of the states when acting pursuant to its plenary power to regulate commerce under Article I of the Constitution. *See Seminole Tribe*, 517 U.S. at 72-73. In light of the Court's ruling in *Seminole Tribe*, Florida Prepaid moved to dismiss College Savings' claim as barred by the Eleventh Amendment. Florida Prepaid argued that the Patent Remedy Act was an unconstitutional attempt by Congress to use its Article I powers under the Patent Clause, U.S. Const. art. 1, § 8, cl. 8, to abrogate state sovereign immunity and to enlarge the federal courts' Article III jurisdiction, which *Seminole Tribe* proscribed. College Savings objected, contending that, in enacting the Patent Remedy Act, Congress was acting pursuant to its enforcement power under section 5 of the Fourteenth Amendment, *see Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976). The use of this power was not only unaffected but was also expressly sanctioned by the Supreme Court's opinion in *Seminole Tribe*, claimed College Savings. *See* 517 U.S. at 71-72n.15 ("[M]any of those cases arose in the context of a statute passed under the Fourteenth Amendment, where

Congress' authority to abrogate is undisputed."). The United States intervened as of right under 28 U.S.C. § 2403(a) (1994) to defend the constitutionality of the Patent Remedy Act.

The district court denied Florida Prepaid's motion to dismiss, because it concluded that Congress had unambiguously abrogated the states' sovereign immunity in the Patent Remedy Act and had acted pursuant to a valid exercise of power under the Fourteenth Amendment. Florida Prepaid took this appeal over which we have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1) (1 994). *See Puerto Rico Aqueduct & Sewer Auth. v. Metcalf & Eddy, Inc.*, 506 U.S. 139, 147 (1993) (holding that, pursuant to the collateral order doctrine and 28 U.S.C. § 1291, a state may appeal from a district court order denying it Eleventh Amendment immunity); *see also Swint v. Chambers County Comm'n*, 514 U.S. 35, 41-42 (1995) ("The collateral order doctrine is best but as a practical understood not as an exception to the final decision rule..... but as a practical construction of it.") (quoting *Digital Equip. Corp. v, Desktop Direct, Inc.*, 511 U.S. 863, 867 (1994)) (internal quotation marks omitted).

II

The Eleventh Amendment

We follow the regional circuit's standard of review regarding issues not pertaining to patent law. *See, e.g., Molins PLC v. Quigg*, 837 F.2d 1064, 1066. 5 USPQ2d 1526, 1527 (Fed. Cir. 1988). Under the law of the Third Circuit, the regional circuit encompassing New Jersey, our review of a dismissal on sovereign immunity grounds is plenary. *See Blanciak V. Allegieny Ludlurn Corp.*, 77 F.3d 690, 699 (3d Cir. 1996).

The Eleventh Amendment provides: "The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." U.S. Const. amend. XI. The Eleventh Amendment confirms that "each State is a sovereign entity in our federal system" and that '"it is inherent in the nature of sovereignty not to be amenable to the suit of an individual without its consent.'" *Seminole Tribe*, 517 U.S. at 54 (quoting *The Federalist No. 81*, at 487 (Alexander Hamilton) (Clinton Rossiter ed., 1961)). This immunity is not absolute, however, as Congress, in limited circumstances, is empowered to abrogate it. *See Fitzpatrick*, 427 U.S. at 456.

Determining whether Congress has abrogated the states' constitutionally secured immunity from suit in federal court is a two-step inquiry. The first step is to discern whether Congress has unequivocally expressed its intent to abrogate immunity. *See Seminole Tribe*, 517 U.S. at 55. The second step is to examine whether, in purporting to abrogate immunity, Congress overstepped its constitutional authority. *See id.* We dispense swiftly with the first step of the inquiry before turning our attention to the second, more arduous step.

III

Intent to Abrogate

Given the importance to our constitutional structure of the Eleventh Amendment's grant of sovereign immunity, a court will not assume that Congress has intended to use its awesome power to abrogate this immunity absent "unmistakably clear" statutory language to that effect.

Dellmuth v. Muth, 491 U.S. 223, 227-28, 230 (1989) ("[E]vidence of congressional intent [to abrogate state sovereign immunity] must be both unequivocal and textual."); *see Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 242-43 (1985). There is no dispute that the Patent Remedy Act is replete with language sufficient to satisfy this requirement. *See* 35 U.S.C. §§ 271(h), 296 (1994). Before passage of the Patent Remedy Act, Title 35 stated only that "whoever" without authority made, used, or sold a patented invention infringed the patent. *See* 35 U.S.C. § 271 (a) (1 988). After the Supreme Court's decision in *Atascadero*, which affirmed that "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute," 473 U.S. at 242, this court held that the Patent Act contained no such unequivocal statement of intent to abrogate, *see Jacobs Wind Elec. Co. v. Florida Dep't of Transp.*, 919 F.2d 726, 728, 16 USPQ2d 1972, 1973 (Fed. Cir. 1990); *see also Chew v. California*, 893 F.2d 331, 334, 13 USPQ2d 1393. 1396 (Fed. Cir. 1990).

In response to our decisions in *Jacobs Wind* and *Chew*, Congress amended the patent laws to express unambiguously its intent to abrogate the sovereign immunity of the states. *See* 35 U.S.C. §§ 271(h), 296 (1994): *see also* 137 Cong. Rec. S4046-48 (daily ed. Mar. 21, 1991) (statement of Sen. DeConcini) (noting that S. 758 was necessary in light of *Jacobs Wind* and *Chew*). Section 271 (h) now states: "As used in this section, the term 'whoever' includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity." Section 296 addresses the sovereign immunity issue even more specifically. It provides:

> Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person . . . for infringement of a patent under section 271, or for any other violation under this title.

35 U.S.C. § 296(a) (1994).

We agree with the parties that, with this statutory language, Congress expressed quite pellucidly its intent to abrogate the states' immunity from federal suit for patent infringement. Therefore, the first step of the abrogation inquiry is plainly satisfied.

IV

Power to Abrogate

Our conclusion that Congress expressed a clear intent to abrogate the states' sovereign immunity leads us to the next step in our inquiry, which is whether Congress acted pursuant to a constitutional grant of power. The power of Congress to abrogate the states' immunity from suit in federal court has been found in only two provisions of the United States Constitution: the Interstate Commerce Clause, U.S. Const. art. 1, § 8, cl. 3, *see Union Gas*, 491 U.S. 1, 13-23 (1989), *overruled by Seminole Tribe*, 517 U.S. at 66, and the Fourteenth Amendment, *see Fitzpatrick*, 427 U.S. at 455-56. In *Seminole Tribe*, however, the Supreme Court held that Congress' vast power to regulate interstate commerce was nevertheless subordinate to the protection from federal suits by private litigants granted to the states by the Eleventh Amendment. *See* 517 U.S. at 72-73. In

the wake of *Seminole Tribe*, then, the solitary legislative tool that the Supreme Court has recognized for abrogating the sovereign immunity of the states is Congress' power to enforce the substantive provisions of the Fourteenth Amendment. *See* U.S. Const. amend. XIV, § 5.

The Senate and House committee reports expressly invoked the Fourteenth Amendment as authority for enacting the Patent Remedy Act. *See* S. Rep. No. 102280, at 8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3094 ("[T]he bill is justified as an acceptable method of enforcing the provisions of the fourteenth amendment."); H. R. Rep. No. 101-960, at 40 (1990). Notwithstanding this invocation of power, we must still examine the legitimacy of the congressional action. *See Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948) ("The question of the constitutionality of action taken by Congress does not depend on recitals of the power which it undertakes to exercise.").

The Fourteenth Amendment is a clear limitation on the authority of the states. *See Fitzpatrick*, 427 U.S. at 453-56. By expanding the federal power at the expense of state autonomy, the Fourteenth Amendment "fundamentally altered the balance of state and federal power struck by the Constitution." *Seminole Tribe*, 517 U.S. at 59 (citing *Fitzpatrick* 427 U.S. at 455). Section 1 of the amendment provides:

> No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

Standing behind the imperative of section 1 is section 5, which grants to Congress the power to enforce the prohibitions of section 1 "by appropriate legislation."

The enforcement provision of the Fourteenth Amendment is far from unique in the constitutional scheme. Virtually identical provisions appear in the Thirteenth, Fifteenth, Nineteenth, Twenty-third, Twenty-fourth, and Twenty-sixth Amendments. In determining whether legislation enacted by Congress is an appropriate use of Congress' enforcement power, the Supreme Court has stated that Congress may use any rational means to effectuate the substantive provisions of the Amendments. *See South Carolina v. Katzenbach*, 383 U.S. 301, 324 (1966) (addressing the power of Congress under section 2 of the Fifteenth Amendment). To give meaning to this so-called rational relationship test, the Supreme Court has looked repeatedly to Chief Justice Marshall's classic formulation concerning the express powers of Congress, which was set forth many years before the enactment of the Civil War Amendments: "Let the end be legitimate, let it be within the scope of the constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited, but consist with the letter and spirit of the constitution, are constitutional. *McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 421 (1819); *see City of Boerne v. Flores*, 117 S. Ct. 2157, 2163 (1997) (stating that, with regard to Congress' enforcement power under the Fourteenth Amendment: "'Whatever legislation is appropriate, that is adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain . . . if not prohibited, is brought within the domain of congressional power'" (quoting *Ex parte Virginia*, 1 00 U.S. 339, 345-46 (1879))); *South Carolina v. Katzenbach*, 383 U.S. at 326.

Therefore, we are obliged to consider whether the objective of the legislation is constitutionally legitimate and whether the means crafted by Congress are plainly adapted to achieving this objective.

A. *Objective of the Patent Remedy Act*

Florida Prepaid first asserts that the goal of the Patent Remedy Act, which is to prevent states from infringing patents or obliging them to compensate the patent owner when they do, is not a legitimate objective under the Fourteenth Amendment. This is so, we understand Florida Prepaid to say, because the amendment was adopted to remedy racial discrimination, and according to Florida Prepaid, the authority of Congress under section 5 of the Fourteenth Amendment is narrowly confined to statutes that promote enforcement of the Equal Protection Clause against discrimination.

Undeniably, the Civil War Amendments were adopted to thwart state-sponsored racial discrimination. *See The Slaughter House Cases*, 83 U.S. (16 Wall.) 36, 71-72 (1872) ("[N]o one can fail to be impressed with the one pervading purpose found in [the Civil War Amendments], lying at the foundation of each, and without which none of them would have been even suggested; we mean the freedom of the slave race, the security and firm establishment of that freedom, and the protection of the newly-made freeman and citizen from the oppressions of those who had formerly exercised unlimited dominion over him."). However, in enforcing the Equal Protection Clause of the Fourteenth Amendment, the Supreme Court has broadened the protections conferred beyond just prohibiting racial discrimination. For example, the clause has been held to prohibit unjustified discrimination on the basis of gender. *see United States v. Virginia*, 518 U.S. 515, 534

(1996), alienage, *see Truax v. Raich*, 239 U.S. 33, 39 (1915), parentage, *see Glona v. American Guarantee & Liability Ins. Co.*, 391 U.S. 73, 76 (1968), criminal conviction, *see Rinaldi v. Yeager*, 384 U.S. 305, 308-09 (1966), and type of business, *see Atchison, Topeka & Santa Fe Ry. v. Vosburg*, 238 U.S. 56, 62 (1915). Consequently, the meaning of the Equal Protection Clause of the Fourteenth Amendment cannot be limited to the particular ill – racial discrimination – that Congress, at the time of the enactment of the Civil War Amendments, intended to redress.

Equally undeniably, the Supreme Court has enforcer the Due Process Clause of the Fourteenth Amendment against the states and has read it expansively to prohibit state actions wholly unrelated to discrimination of any sort. *See, e.g., Barry v. Barchi*, 443 U.S. 55, 64 (1979) (horse trainer's license protected); *Memphis Light, Gas & Water Div. v. Craft*, 436 U.S. 1, 9-12 (1978) (protecting utility service); *Goldberg v. Kelly*, 397 U.S. 254, 264 (1970) (protecting recipients of public assistance from a cessation of benefits without a pre-termination hearing). Florida Prepaid cites no authority forbidding Congress from enacting statues that abrogate state in order to protect persons from property deprivations without due process of law. Surely the enforcement power of Congress under section 5 must embrace the full range of behavior that the Supreme Court has held to violate the substantive provisions in section 1 of the Amendment. *See City of Boerne*, 117 S. Ct. at 2163 ("The 'provisions of this article,' to which § 5 refers, include the Due Process Clause of the Fourteenth Amendment."). We therefore reject the proposition that congressional authority under section 5 is restricted to only a certain provision of the

Fourteenth Amendment, namely the Equal Protection Clause.

Protecting a privately-held patent from infringement by a state is certainly a legitimate congressional objective under the Fourteenth Amendment, which as noted above, empowers Congress to prevent state-sponsored deprivation of private property. It is, of course, beyond cavil that the patent owned by College Savings is property. *See Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 64 USPQ2d 18, 31-32 (1945) ("That a patent is property, protected against appropriation both by individuals and government, has long been settled."); *Consolidated Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96 (1876) ("A patent for an invention is as much property as a patent for land."); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599, 225 USPQ 243, 246 ("It is beyond reasonable debate that patents are property."), *modified in other respects*, 771 F.2d 480, 226 USPQ 985 (Fed. Cir. 1985); *see also* 35 U.S.C. § 261 (1994) ("[P]atents shall have the attributes of personal property."). This is so because, at bottom, a patent is but the right to exclude others from making, using, or selling an invention, *see McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) 35 U.S.C. § 271 (1994); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee."), and the right to exclude others is established as among the "most essential sticks in the bundle of rights that are commonly characterized as property," *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979); *see Schenck v. Nortron Corp.*, 713 F.2d 782, 786 n.3, 218 USPQ 698, 701 n.3 (Fed. Cir. 1983) ("The patent right is but the right to exclude others, the very definition of; 'property.'").

Indeed, the United States' "unlicensed use of a patented invention is properly viewed as a taking of property under the Fifth Amendment." *Hughes Aircraft Co. v. United States*, 86 F.3d 1566, 1571, 39 USPQ2d 1065, 1068 (Fed. Cir. 1996), *vacated on other grounds*, 117 S. Ct. 1466 (1997). In subjecting the states to suit in federal court for patent infringement, Congress sought to prevent states from depriving, patent owners of their property without due process through infringing acts, an objective that comports with the text and judicial interpretations of the Fourteenth Amendment. The Constitution itself, by recognizing the importance of securing the rights of inventors to their inventions, *see* U.S. Const. art. 1, § 8, signals a reason for Congress to secure patent property from risk of deprivation.

In support of its contention that the objective of the Patent Remedy Act is not permissible under the Fourteenth Amendment, Florida Prepaid argues that, even if it has deprived College Savings of its property, it has not done so without providing due process. As a result, no constitutional violation occurred. Absent a constitutional violation, Florida Prepaid continues, Congress is without power to abrogate under the Fourteenth Amendment. This argument, although beguiling, must fail. It is true that

College Savings could have sought relief in the Florida Legislature through a claims bill, *see* Fla. Stat. § 11.065 [2], and that this avenue of relief most likely provides sufficient process to preclude a violation of the Fourteenth Amendment. However, as the Supreme Court instructed in *South Carolina v. Katzenbach*, Congress may forbid even state conduct that is not unconstitutional so long as the legislation is aimed at preventing a violation. *See* 383 U.S. at 333-34 (upholding legislation banning literacy tests and similar voting requirements despite the facial constitutionality of the measures, because Congress was responding to prior discriminatory application of such measures); *Katzenbach v. Morgan*, 384 U.S. 641, 658 (1966). Therefore, "[l]egislation which deters or remedies constitutional violations can fall within the sweep of Congress' enforcement power even if in the process it prohibits conduct which is not itself unconstitutional." *City of Boerne*, 117 S, Ct. at 2163.

Under Florida Prepaid's interpretation, abrogation of a state's immunity from suit under the Patent Remedy Act would apply only to those states that fail to provide a remedy for compensation for patent infringement by the

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[2] Florida Prepaid also asserts that College Savings could have brought a takings claim in Florida State Court. Although the Supreme Court of the State of Florida has allowed a takings claim premised on a patent infringement theory to proceed in state court, *see Jacobs Wind Elec. Co. v. Florida Dep't of Transp.*, 626 So.2d 1333, 1337 (Fla. 1993), and we have opined in dicta that such a claim could be brought in state court, *see Jacobs Wind*, 919 F.2d at 728, 16 USPQ2d at 1974, such process may be illusory. The Supreme Court has not indicated whether a takings claim based on patent infringement is cognizable in state courts in light of the fact that Congress has declared that claims arising under federal patent law are within the exclusive province of the federal courts. *See* 28 U.S.C. § 1338(a) (1994)..

state, or that provide a remedy of such inconsequence as to be illusory. This interpretation imputes to Congress an intent to overlook the enforcement of federal patent rights on a piecemeal, state-by-state basis and to deny Congress the authority to subject all states to suit for patent infringement in the federal courts, regardless of the extent of procedural due process that may exist at any particular time. We do not read the precedent to permit abrogation of the state's immunity only in those instances in which a state provides no due process in its own courts to redress the alleged misconduct. We also do not read the precedent to require Congress to customize statutes enacted under the Fourteenth Amendment to take account of such variations as may exist among the states in remedies offF-,-sd for alleged infringement of patents. In sum, the fact that Florida may today have some process available to a patentee asserting infringement by the state does not preclude Congress from exercising its powers under the Fourteenth Amendment through the Patent Remedy Act.

Florida Prepaid next argues that the objective of the Patent Remedy Act is impermissible because, if we were to allow it, Congress would be able to abrogate state sovereign immunity pursuant to its Article I power, which is the exact result that the Supreme Court proscribed in *Seminole Tribe*, *See* 517 U.S. at 72-73. This is because the "property" protected by Congress under the Fourteenth Amendment, in this case a patent, is federally created property under Title 35 of the U.S. Code. *See* 35 U.S.C. § 1 0 1 et seq. (1 994). Florida Prepaid asserts that, just as Congress created the patent system, it could ostensibly choose to create any sort of property using its Article I powers, and then, argues Florida Prepaid, abrogate the states' immunity to suit for the deprivation of that property. Surely, urges Florida Prepaid, Congress cannot accomplish indirectly through the

Fourteenth Amendment precisely what it is forbidden from doing directly through Article 1.

This argument has, in fact, met with some acceptance among our sister circuits. *See Chavez v. Arte Publico Press*, 139 F.3d 504, 510-11, 46 USPQ2d 1541, 1546 (5th Cir. 1998) (holding that Congress could not abrogate a state's immunity to suit for copyright infringement through the Due Process Clause of the Fourteenth Amendment because "it [would be] a direct end-run around Seminole's holding that Article I powers may not be employed to avoid the Eleventh Amendment's limit on the federal judicial power. Congress could easily legislate 'property' interests and then attempt to subject states to suit in federal court for the violation of such interests."); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 131 F.3d 353, 361, 45 USPQ2d 1001, 1007 (3d Cir. 1997) (stating that the right to be free of unfair competition under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1994), does not implicate a property right under the Fourteenth Amendment and noting: "If a state's conduct impacting on a business always implicated the Fourteenth Amendment, Congress would have almost unrestricted power to subject states to suit through the exercise of its abrogation power. Congress could pass any law that tangentially affected the ability of businesses to operate and then create causes of action against the states in federal court if they infringed on those federally created rights."); *cf. In re Creative Goldsmiths, Inc.*, 119 F.3d 1140, 1146-47 (4th Cir. 1997) (holding that Congress could not validly abrogate state sovereign immunity under the Bankruptcy Code because "[i]f the Fourteenth Amendment is held to apply so broadly as to justify Congress' enactment of the Bankruptcy Code as a requirement of due process, then the same argument would justify every federal

enforcement scheme as a requirement of due process under the Fourteenth Amendment"), *cert. denied*, 118 S. Ct. 1517 (1998).

These cases miss the mark, however, because they ignore the essential fact that, because the Fourteenth Amendment was enacted subsequent to the Eleventh Amendment. unlike Article 1, it expressly qualified the principle of sovereign immunity. *See Union Gas*, 491 U.S. at 41-42 (Scalia, J., dissenting) ("The Eleventh Amendment, and the principle of state sovereignty which it embodies, are necessarily limited' by the [Fourteenth Amendment]." (citations omitted) (quoting *Fitzpatrick*, 427 U.S. at 456)). Our sister circuits wrongly equate the result afforded by congressional power under the Fourteenth Amendment and Article I with the constitutional structure under which Congress governs and the federal courts exercise jurisdiction. When the states adopted the Fourteenth Amendment and consented to cede a portion of their authority to the federal government, it was within their contemplation that they limited their Eleventh Amendment immunity. *Fitzpatrick* teaches so, and we adhere to its reasoning. *See* 427 U.S. at 453-54.

Although there may be some property interests that are not protected by the Fourteenth Amendment, *see, e.g. Paul v. Davis*, 424 U.S. 693, 712 (1976) (holding Fourteenth Amendment, does not secure to persons the right to prevent disclosure of their arrest), and discriminating between property interests that are protectable under the Fourteenth Amendment and those that are not may prove a difficult task, such central and historic fixtures in the realm of property as patents surely warrant protection from deprivation by states. Unlike many forms of property only recently recognized, patents were certainly considered

property at the time of the adoption of the Fourteenth Amendment in 1868. *See Brown v. Duchesne*, 60 U.S. (9 How.) 183, 197 (1856) ("For, by the laws of the United States, the rights of a party under a patent are his private property."). To claim that patents do not warrant protection is tantamount to asserting that Congress may not, under any circumstance, abrogate the states' Eleventh Amendment immunity pursuant to the Due Process Clause when seeking to protect persons from the risk of unlawful deprivation of their property. Such would, in our view, amount to a direct contradiction of the text of the Fourteenth Amendment and its application by the Supreme Court.

If the reasoning of *Fitzpatrick* is to retain vitality, it must be that protecting a well-established property interest such as a patent is a permissible objective under the Fourteenth Amendment. *See* 427 U.S. at 456 ("We think that Congress may, in determining what is 'appropriate legislation' for the purpose of enforcing the provisions of the Fourteenth Amendment, provide for private suits against States or state officials which are constitutionally impermissible in other contexts."). We therefore conclude that the first part of Chief Justice Marshall's formulation of the test to identify "appropriate legislation" under the Fourteenth Amendment is met. *See McCulloch v. Maryland*, 17 U.S. at 421. The objective of the Patent Remedy Act, which is to protect privately-held patent property from deprivation by states, is constitutionally legitimate.

B. *Congruence between Means and Potential Harm*

Florida Prepaid also suggests that, even if the Patent Remedy Act's objective is constitutionally legitimate, the means by which Congress sought to protect the patent right are out of proportion to the harm that the Patent Remedy

Act endeavors to prevent, or in the words of Chief Justice Marshall, the means are not "plainly adapted" to the constitutional end ana thus wither under constitutional scrutiny. Florida Prepaid reminds us that "Ja]s broad as the congressional enforcement power is, it is not unlimited." *Oregon v. Mitchell*, 400 U.S. 112, 128 (1970) (opinion of Black, J.).

The Supreme Court's decision in *City of Boerne* guides our analysis as we attempt to discern whether the Patent Remedy Act is an appropriate means through which Congress exercised its power to enforce the substantive guarantees of the Fourteenth Amendment. That case challenged the Religious Freedom Restoration Act (RFRA) as an unconstitutional extension of Congress' power to enforce the substantive provisions of the Fourteenth Amendment. *See* 117 S. Ct. at 2160. Through RFRA, Congress sought to circumvent the Supreme Court's ruling in *Employment Division, Department of Human Resources of Oregon v. Smith*, 494 U.S. 872 (1990), which eschewed the "compelling state interest" test of *Sherbert v. Verner*, 374 U.S. 398 (1963), for neutral, generally applicable laws that might incidentally burden a religious practice, *See City of Boerne*, 117 S. Ct. at 2160-61. Congress, through RFRA, reinstated the compelling state interest test, which required that a state show a compelling interest when enacting laws that, although facially neutral in their treatment of religion, imposed a substantial burden on religious exercise. *See* 42 U.S.C. §2000bb-1 (1994). In *City of Boerne*, the Court, noting that Congress' enforcement power did not extend to include the "power to decree the substance of the Fourteenth Amendment's restrictions on the States," *id.* at 2164, declared RFRA an unconstitutional attempt by Congress to legislate the substance of the Fourteenth Amendment, *see id.* at 2172.

The Court admitted: "While the line between measures that remedy or prevent unconstitutional actions and measures that make a substantive change in the governing law is not easy to discern, and Congress must have wide latitude in determining where it lies, the distinction exists and must be observed." *Id.* at 2164.

As an aid in distinguishing between provisions that remedy or prevent unconstitutional actions and those that change the substance of the Fourteenth Amendment, the Court offered the following observation: "There must be a proportionality between the injury to be prevented or remedied and the means adopted to that end. Lacking such a connection, legislation may become substantive in operation and effect." *Id.*

1. *Injury to be prevented*

In *City of Boerne*, because no evidence was before Congress reflecting examples of modern instances of generally applicable laws passed because of religious bigotry, the Supreme Court inferred that the injury to be prevented or remedied by RFRA was slight. *See id.* at 2169. In contrast, the Court noted that, in *South Carolina v. Katzenbach*, which upheld various provisions of the Voting Rights Act of 1965, the congressional action was "necessary to 'banish the blight of racial discrimination in voting, which has infected the electoral process in parts of our country for nearly a century.'" *City of Boerne*, 117 S. Ct. at 2167 (quoting *South Carolina v. Katzenbach*, 383 U.S. at 308). The remedies provided by the Voting Rights Act were deemed necessary given the tenacious pervasiveness of discrimination in state electoral processes. *See id.*

Florida Prepaid argues that, as with the absence of injury in *City of Boerne*, Congress was confronted with no evidence of widespread patent infringement by the states, and that absent this factual predicate, abrogating state sovereign immunity was impermissible. The legislative record of the Patent Remedy Act contains indications that the extent of previous patent infringement by states had not yet risen to emergency levels. *See Patent Remedy Clarification Act: Hearings on H.R. 3886 Before the Subcomm. on Courts, Intellectual Property, and the Admin. of Justice of the House of Representatives Comm. on the Judiciary*, 101st Cong. 22 (1990) (statement of Rep. Kastenmeier) ("We do not have any evidence of massive or widespread violation of patent laws by the States either with or without this immunity.") [hereinafter *Hearings*]. Nonetheless, the same record discloses significant instances of alleged patent infringement by states or state entities. *See id.* at 10-11, 30-31, 51 (prepared statements of Jeffrey M. Samuels, Acting Commissioner of Patents and Trademarks, United States Department of Commerce; Robert P. Merges, Associate Professor of Law, Boston University School of Law; arid William S. Thompson, President, American Intellectual Property Law Association); *see also Jacobs Wind*, 919 F.2d at 728, 16 USPQ2d at 1973 (affirming the dismissal of an infringement claim against the state as barred by the Eleventh Amendment because Congress failed to enunciate clearly in the text of the patent laws that it intended to abrogate the sovereign immunity of states); *Chew*, 893 F.2d at 332-33, 13 USPQ2d at 1394 (same), *Watts v. University of Del.*, 622 F.2d 47, 53, 206 USPQ 106, 112 (3d Cir. 1980) (involving an infringement action against an arm of the State of Delaware); *Lemelson v. Ampex Corp.*, 372 F. Supp. 708, 711-12, 181 USPQ 313, 314-15 (N.D. 111. 1974) (denying a motion to dismiss a

claim against a state for contributory infringement, because the state had waived its immunity under *Parden v. Terminal Railway*, 377 U.S. 184 (1964)); *Hercules. Inc. v. Minnesota State Highway Dep't.*, 337 F. Supp. 795, 798, 172 USPQ 644, 647 (D. Minn. 1972) (concluding that injunctive relief under *Ex parte Young*, 209 U.S. 123 (1908), but not monetary relief under Title 35, was available to a patentee for alleged infringement by a state); *William C. Popper & Co v. Pennsylvania Liquor Control Bd.*, 16 F. Supp. 762, 763 (E.D. Pa. 1936) (dismissing an infringement claim as barred by the Eleventh Amendment); *Automobile Abstract & Title Co. v. Haggerty*, 46 F.2d 86, 87-88 (E.D. Mich. 1931) (same); *Warren Bros. Co. v. Kibbe*, 43 F.2d 582, 584 (D. Ore. 1925) (holding that a state had waived its immunity to suit for patent infringement by agreeing to indemnify contractors for royalties owed due to their infringement of patents for paving materials); *cf. May v. Board of Comm'rs*, 30 F. 250, 261 (C.C.N.D. Ohio 1887) (holding that Ohio counties could be sued for patent infringement). In addition, the legislative history reflects the recognition that, as commercialization of basic research continues, particularly in the biotechnology field, state universities are becoming increasingly more active in the commerce of intellectual property, and, naturally, an increase in the number of patent suits against the states likely will ensue. *See* 137 Cong. Rec. S4046 (daily ed. Mar. 21, 1991) (statement of Sen. DeConcini); H. R. Rep. No. 101-960, at 38 (1990). Certainly the harm that Congress perceived in this case is neither of the magnitude nor caliber of the harm that the Voting Rights Laws sought to remedy. We cannot say, however, that absent harm of that order, Congress has no power to make the states amenable to suit in federal court for breaching the guarantees of the Fourteenth Amendment.

Also important, when states infringe patents, they cause considerable harm to the patentee and the patent system as a whole. Absent the right to sue a state under Title 35 for infringement, a patent declines drastically in value, because there is no access to the remedies of attorney fees and treble damages. *See* 35 U.S.C. §§ 284, 285 (1994). Although injunctive relief would seem to be available against the state in federal court under *Ex Parte Young*, 209 U.S. 123 (1908), such relief falls far short of the protection that Congress has provided. This is so because, under the federal patent law, damages begin to accrue at the time that the alleged infringer receives notice of infringement, either through a marked product or directly from the patentee, *see* 35 U.S.C. § 287 (1994), whereas injunctive relief prevents only future infringement, without compensating for past infringement. Consequently, an equitable remedy such as an injunction, preventing only future damage, would provide an insufficient disincentive to infringe. Furthermore, without the disincentive provided by the patent law's damages provisions, a patentee of inventions utilized primarily by states would suffer even greater harm, because an overwhelming portion, rather than a minor subset, of the potential market would be more apt to infringe or to procure cheaper infringing devices until the patentee brings suit. This would render the patentee's patent almost worthless. *See James v. Campbell*, 104 U.S. 356, 358 (1882) (stating with regard to infringement by the federal government: "Many inventions relate to subjects which can only be properly used by the government, such as explosive shells. rams, and submarine batteries to be attached to armed vessels. If it could use such inventions without compensation, the inventors could get no return at all for their discoveries and experiments."); *see also Jacobs Wind*, 919 F.2d at 727, 16 USPQ2d at 1973 (patent on a

tidal flow system); *Chew*, 893 F.2d at 332, 13 USP02d at 1394 (patent on a method for testing automobile exhaust emissions).

2. Means adopted

Against this harm to patent holders and the entire patent system, we balance the burden placed on the states by subjecting them to suit in federal court for infringement. For "[w]hile preventive rules are sometimes appropriate remedial measures, there must be a congruence between the means used and the ends to be achieved." *City of Boerne*, 117 S. Ct. at 2169. The ends to be achieved by the Patent Remedy Act are to assure that patentees will not be deprived of their property rights by claims of immunity. Although this may be a modest end, at least when compared with the goals of the Voting Rights legislation, the means of effecting that end are similarly modest and circumscribed. The Patent Remedy Act holds states monetarily accountable for patent infringement, an unlawful act. *See* 35 U.S.C. § 271 (1994). Conduct that could constitute patent infringement is part of the states' commercial activity, not its central political governance role. Thus, the Patent Remedy Act will rarely constrict or restrain a state in the performance of its core governmental functions. In contrast, in *City of Boerne*, RFRA's "[s]weeping coverage ensure[(d] its intrusion at every level of government, displacing laws and prohibiting official actions of almost every description and regardless of subject matter." 117 S. Ct. at 2170. Any act of a state that could be shown to burden substantially the practice of religion was affected by RFRA, even actions that were otherwise perfectly legitimate. Here, the Patent Remedy Act speaks only to a state's unauthorized production, use, or sale of a patented device or method. A state found to have infringed a patent is subject to the same

consequences as a private party infringer, namely damages subject to trebling, attorney fees, and injunctive relief. The damages in such cases have long been established by Congress as proper and necessary to afford full compensation to a patentee. There is no sound reason to hold that Congress cannot subject a state to the same civil consequences that face a private party infringer. As noted in the legislative history of the Patent Remedy Act, states now engage fully in the intellectual property marketplace, even often asserting their own patent rights. *See Hearings, supra*, at 36-37; *see also Regents of the Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559, 1564, 43 USPQ2d 1398, 1402 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1548 (1998). The Act subjects states to no greater burdens than those that must be shouldered by private parties. Therefore, the burden placed upon states by the Patent Remedy Act is not so great as to undermine the congressional abrogation of immunity.

Unlike the statute at issue in *City of Boerne*, the burden that the Patent Remedy Act places on states is slight, and it is not disproportionate or incongruous with the significant harm to patent holders who, absent abrogation of Eleventh Amendment immunity, would be unable to enforce fully the rights conveyed by their patent. The Patent Remedy Act thus achieves the congruence between the injury to be prevented and the means adopted to remedy the injury that distinguishes a permissible, remedial exercise of Congress' power under the Fourteenth Amendment from an impermissible extension of the substance of the Fourteenth Amendment rights themselves. *See City of Boerne, supra*. Hence, the second part of Chief Justice Marshall's test for "appropriate legislation" is satisfied; the means of the Patent Remedy Act are plainly adapted to its end. *See McCulloch v. Maryland*, 17 U.S. at 421.

V

Conclusion

Because Congress clearly expressed its intent to abrogate the sovereign immunity of the states to suit for patent infringement, and because Congress exercised its intent pursuant to a valid exercise of power, the decision of the district court denying Florida Prepaid's motion to dismiss the claim as barred by the Eleventh Amendment is

AFFIRMED.

Supreme Court, U.S.
FILED
SEP 23 1998
OFFICE OF THE CLERK

No. 98-149

In The

Supreme Court of the United States

October Term, 1997

COLLEGE SAVINGS BANK,

Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

RESPONDENT'S BRIEF IN OPPOSITION

LOUIS F. HUBENER
Assistant Attorney General
Office of the Attorney General
The Capitol
Tallahassee, FL 32399-1050
(850) 414-3300

WILLIAM B. MALLIN
Counsel of Record
LEWIS F. GOULD, JR.
JOSEPH M. RAMIREZ
ECKERT SEAMANS CHERIN & MELLOTT, LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
(412) 566-6000

Attorneys for Respondent

148696

Counsel Press LLC
FORMERLY LUTZ APPELLATE SERVICES
(800) 274-3321 • (800) 359-6859

COUNTERSTATEMENT OF QUESTIONS PRESENTED

1. Does the right to bring a claim for false advertising against a perceived competitor under § 43(a) of the Lanham Act constitute "property" such that Congress, acting pursuant to section 5 of the Fourteenth Amendment, may abrogate Eleventh Amendment immunity and make the states subject to suit in federal court on false advertising claims?

2. Does the doctrine of *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184 (1964), which held that Congress may utilize its legislative authority under the Commerce Clause to compel states to "waive" their Eleventh Amendment immunity if they participate in commerce regulated by Congress, apply to claims against a state agency arising out of the state's administration and promotion of a program designed to help ensure access to higher education for the citizens of the state?

STATEMENT OF INTERESTED PARTIES

The parties are stated correctly in the "Parties to the Proceeding" on page ii of the petition for a writ of certiorari.

The Florida legislature has changed Respondent's name from Florida Prepaid Postsecondary Education Expense Board to the Florida Prepaid College Board. This Brief will refer to Respondent by the earlier name, for the sake of clarity and convenience. Respondent is a body corporate of the state of Florida and does not have any parent or subsidiary corporations.

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Respondent respectfully requests that the Court deny the petition for a writ of certiorari seeking review of the opinion of the United States Court of Appeals for the Third Circuit. The opinion of the Court of Appeals is reported at 131 F.3d 353 (3d Cir. 1997), and is reproduced in Petitioner's Appendix ("Pet. App.") at 1a-27a.

COUNTERSTATEMENT OF THE CASE

Petitioner College Savings Bank ("CSB") seeks review of a Third Circuit decision which affirmed the dismissal, on the basis of the Eleventh Amendment, of Lanham Act claims brought by CSB against respondent Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid"). Pursuant to 28 U.S.C. § 2403(a), the United States of America intervened in this action before the District Court in partial support of CSB's position. The United States filed its own appeal and was aligned with CSB before the Court of Appeals, but has elected not to file a petition for a writ of certiorari.

Florida Prepaid is an organ of the state of Florida that was created to administer a college tuition savings program. *See* Fla. Stat. § 240.551. The principal purpose of the Florida Prepaid program is to enable and encourage the people of Florida to obtain the benefits of higher education at Florida institutions by providing an easy, effective, and safe way to overcome the financial obstacles that too often have put college beyond the reach of ordinary Floridians. Participation in the program, which is generally open to Florida residents or the children of Florida residents, *see* Fla. Stat. § 240.551(2)(e)(1)-(3), ensures that money invested will grow to meet the future cost of a college education at Florida state postsecondary education institutions. The program is a top Florida priority:

> The State considers this an essential governmental operation to assist its citizens to access higher education. All legal and beneficial interests in the assets held by the trust fund are vested in the State for its exclusive benefit and the exclusive benefit of the colleges and universities; therefore, payments are guaranteed to be made on the beneficiary's behalf to the State college or university. Exercise of full benefits under the contract guarantees the beneficiary receipt of services and the beneficiary will not receive any funds.

Florida Prepaid Master Covenant, § 5.08.

The District Court found that Florida Prepaid is an "arm of the state" of Florida and thereby entitled to assert Florida's Eleventh Amendment immunity as a bar to jurisdiction in federal court. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 948 F. Supp. 400 (D.N.J. 1996); *see* Pet. App. at 46a-58a. Neither CSB nor the United States sought review of that finding before the Court of Appeals.

CSB is a commercial financial institution that markets a certificate of deposit product designed to assist customers with investing to cover the costs of a college education. CSB owns a United States patent relating to a calculation methodology used with its certificate of deposit product. In 1994, CSB sued Florida Prepaid for patent infringement in the United States District Court for the District of New Jersey. In 1995, CSB brought a second action against Florida Prepaid in the same court, this time alleging violations of section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The Lanham Act claims relate exclusively to alleged false advertising by Florida Prepaid in its descriptions of its own tuition funding program. There are no allegations of false statements regarding CSB's certificate of deposit product, nor any claims for

trademark infringement, trade dress infringement, or other matters covered by the Lanham Act.

After this Court announced its decision in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), Florida Prepaid moved to dismiss both the Lanham Act action and the patent infringement action as barred by the Eleventh Amendment. The United States intervened, ostensibly to defend the constitutionality of the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("the TRCA"), which had purported to make the Lanham Act applicable to the states, and the Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230 (1992), which had purported to make the states amenable to suit in federal court for patent infringement. With respect to the TRCA, however, the United States argued only that Florida Prepaid had lost its Eleventh Amendment immunity to Lanham Act suits via the "constructive waiver" doctrine of *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184 (1964). CSB argued both that the *Parden* doctrine applied and that the TRCA was constitutional because Congress possessed authority under section 5 of the Fourteenth Amendment to abrogate Eleventh Amendment immunity and permit Lanham Act suits against the states.

In a single decision, the District Court granted the motion to dismiss the Lanham Act case but denied the motion to dismiss the patent infringement action. In the instant case, both CSB and the United States appealed the dismissal of the Lanham Act suit to the Third Circuit, which affirmed. In the patent infringement case, Florida Prepaid appealed the decision to the United States Court of Appeals for the Federal Circuit, which affirmed. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1355 (Fed. Cir. 1998)[1]; *see* Pet. App. 95a-120a.

1. Florida Prepaid shortly will be filing a petition for a writ of certiorari in the patent infringement case.

REASONS FOR DENYING THE WRIT

I.

THE COURT OF APPEALS CORRECTLY APPLIED THIS COURT'S DECISIONS IN *SEMINOLE TRIBE OF FLORIDA v. FLORIDA* AND *CITY OF BOERNE v. FLORES* IN HOLDING THAT CONGRESSIONAL AUTHORIZATION OF SUITS IN FEDERAL COURT AGAINST THE STATES ON FALSE ADVERTISING CLAIMS CANNOT BE JUSTIFIED AS ABROGATION OF THE ELEVENTH AMENDMENT THROUGH AN EXERCISE OF FOURTEENTH AMENDMENT ENFORCEMENT POWER.

The decision of the Court of Appeals for the Third Circuit ("the Court of Appeals") is manifestly correct, and no further review is required. CSB asks this Court to grant certiorari in order to consider a sweeping theory of property rights that the Court of Appeals properly rejected and that this Court surely would reject as well. The tightly confined holding of the Court of Appeals is consistent with this Court's precedents, and does not conflict with any other appellate decision. Although more work remains to be done in order to explore and explain fully the implications of this Court's opinion in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), that work must await a case that squarely presents an unresolved issue of genuine import. The instant case, which involves an unusually narrow legal question that clearly has been correctly decided, offers nothing worthy of review. Accordingly, this Court should deny the petition for a writ of certiorari.

In *Seminole Tribe*, this Court held that Congress has no power under the Indian Commerce Clause or the Interstate Commerce Clause to abrogate the Eleventh Amendment immunity enjoyed by the states. As the Court of Appeals recognized, the holding of

Seminole Tribe is squarely applicable here. The Lanham Act represents an exercise of congressional power under the Interstate Commerce Clause. *See, e.g., Trade-Mark Cases*, 100 U.S. 82, 94-96 (1879) (stating that congressional power to provide trademark protection can arise only from the power to regulate interstate commerce). Thus, claims brought under the Lanham Act against a state or state agency in federal court pursuant to the TRCA must be dismissed as barred by the Eleventh Amendment.

To overcome this limitation on congressional power and rescue the TRCA from unconstitutionality, CSB argues that the statute can be treated as an exercise of Congress's enforcement power under section 5 of the Fourteenth Amendment. This argument requires that a person's interest in being free from the type of false advertising alleged here by CSB be deemed a "property" right, so that the Fourteenth Amendment may be triggered. Indeed, according to CSB, because a "business" is a form of property, any state action that affects a business in any way is a potential impingement upon property that Congress may forbid under the Fourteenth Amendment. *See* Petition for a Writ of Certiorari ("Pet.") at 16-19. The Eleventh Amendment, it would appear, simply has no force where a "business" is concerned.

After *Seminole Tribe*, however, courts must be wary of accepting a contention that a particular congressional attempt to abrogate Eleventh Amendment immunity is a legitimate exercise of Fourteenth Amendment power. *Seminole Tribe* makes it perfectly plain that Congress enjoys no power to abrogate Eleventh Amendment immunity under *any* provision of Article I of the Constitution. Courts, therefore, must be vigilant so that congressional enforcement power under section 5 of the Fourteenth Amendment, which applies only to the substantive provisions of that Amendment, is not improperly converted into a replacement for the entirety of Article I. Congress is not free to transform exercises of Article I power into applications of Fourteenth

Amendment enforcement authority simply because the Fourteenth Amendment is Congress's only remaining source of power to abrogate the Eleventh Amendment. Judicial recognition of such pretextual invocations of Fourteenth Amendment power would flout the rule of *Seminole Tribe* and would eviscerate the Eleventh Amendment. "The need to promote the supremacy of federal law must be accommodated to the constitutional immunity of the States." *Idaho v. Coeur d'Alene Tribe of Idaho*, 117 S. Ct. 2028, 2038 (1997) (quoting *Pennhurst State School & Hospital v. Halderman*, 465 U.S. 89, 105 (1984)).

Post-*Seminole Tribe* decisions that have upheld congressional abrogations of Eleventh Amendment immunity have done so where the guarantees of the Fourteenth Amendment were very closely implicated. In *Wheeling & Lake Erie Railway Co. v. Public Utility Commission of Pennsylvania*, 141 F.3d 88, 93-94 (3d Cir. 1998), the Third Circuit held that the Railroad Revitalization and Regulatory Reform (4-R) Act of 1976, 49 U.S.C. § 11501, was a valid exercise of section 5 enforcement power because it protected railroads against discriminatory taxes levied by state and local authorities in violation of the railroads' equal protection rights.[2] *See id.* at 93. *See also Doe v. University of Illinois*, 138 F.3d 653, 660 (7th Cir. 1998) (upholding abrogation accomplished through enactment of Title IX as designed to protect against invidious discrimination in state-run, federally funded institutions); *Young v. Pennsylvania House of Representatives Republican Caucus*, 994 F. Supp. 282, 287-88 (M.D. Pa. 1998) (upholding abrogation accomplished through ADEA, 29 U.S.C. §§ 621-634, as valid section 5 enforcement of equal protection rights).

In contrast, courts have invalidated attempted abrogations of Eleventh Amendment immunity where the right sought to be protected was more a creature of Article I than a substantive

2. The court also noted that its decision in *College Savings Bank v. Florida Prepaid* was "limited to its facts." *Id.* at 94.

guarantee of the Fourteenth Amendment. *See, e.g., Chavez v. Arte Publico Press*, 139 F.3d 504, 508-12 (5th Cir. 1998) (rejecting attempted abrogation of immunity for copyright infringement suits), *pet. for reh'g pending*; *In re Sacred Heart Hospital of Norristown*, 133 F.3d 237, 243-45 (3d Cir. 1998) (rejecting attempted abrogation via the Bankruptcy Code and noting that there is no constitutional right to a bankruptcy discharge) (citing *United States v. Kras*, 409 U.S. 434, 446-47 (1973)).

A notable law review commentary has explained the jeopardy to the Eleventh Amendment created by unjustified congressional reliance on Fourteenth Amendment authority to protect congressionally created rights:

> In *Seminole Tribe*, the Court held that Congress has the power to abrogate Eleventh Amendment immunity pursuant to its power to enforce the Fourteenth Amendment, but not under its Article I legislative power. The Fourteenth Amendment, however, includes a clause prohibiting states from depriving persons of property without due process of law. Can Congress pass a statute giving individuals a property right vis-a-vis the states and then, to "enforce" the Due Process Clause, abrogate the states' Eleventh Amendment immunity with respect to suits to enforce that right? An affirmative answer to this question threatens to reduce *Seminole Tribe*'s abrogation holding to nothing. . . . If this reasoning were to hold, then Congress's power to abrogate Eleventh Amendment immunity would appear to be coextensive with its power to legislate under Article I, and, if so, *Seminole Tribe*'s holding that Congress lacks the power to abrogate Eleventh Amendment immunity under Article I would be eviscerated.

Carlos Manuel Vazquez, *What Is Eleventh Amendment Immunity?*, 106 Yale L.J. 1683, 1744-46 (1997); *see also* Henry Paul Monaghan, *Comment: The Sovereign Immunity "Exception,"* 110 Harv. L. Rev. 102, 126 n.162 (1996) ("Whether the *Seminole Tribe* majority would permit so transparent an evisceration of its holdings is unclear."). Here, the Court of Appeals properly declined CSB's invitation to "eviscerate" the Eleventh Amendment. In so doing, the Third Circuit followed the teachings of this Court on both Eleventh Amendment and Fourteenth Amendment issues.

There is no historical tradition linking the Lanham Act and the Fourteenth Amendment. The Lanham Act always has been regarded as an exercise of the power to regulate commerce.[3] The legislative history of the TRCA, which amended the Lanham Act to permit suits against the states, contains only a passing reference to the Fourteenth Amendment as a source of authority for congressional abrogation of immunity for trademark infringement suits, *see* S. Rep. No. 102-280 (May 12, 1992), at 7-8, and is completely silent with respect to the *false advertising* prong of the Lanham Act, which is all that is involved here. Thus, there is no direct support for the view that Congress intended to use its Fourteenth Amendment power to permit suits against the states in federal courts on federal false advertising claims.

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3. The legislative history of the Lanham Act states:

> Marks used in interstate commerce are properly the subject of Federal regulation. It would seem as if national legislation along national lines securing to the owners of trade-marks in interstate commerce definite rights should be enacted and should be enacted now. There can be no doubt under the recent decisions of the Supreme Court of the constitutionality of a national act giving substantive as distinguished from merely procedural rights in trade-marks in commerce over which Congress has plenary power.

S. Rep. No. 1333 (May 14, 1946), at 1277.

The brief mention of the Fourteenth Amendment in the legislative history does not convert the TRCA into an *appropriate* exercise of Fourteenth Amendment enforcement authority with respect to false advertising claims under the Lanham Act. *See Oregon v. Mitchell*, 400 U.S. 112, 129 (1970); *Ex Parte Virginia*, 100 U.S. 339, 345-46 (1879). The courts retain the ultimate responsibility for determining whether a given enactment is a legitimate exercise of Fourteenth Amendment power:

> [A]bsent an outright congressional declamation, it is the court's task to decipher whether Congress has enacted legislation pursuant to its section 5 powers. In so doing, the cryptology is largely dependent upon judicial ability to discern, given a fair reading of the statute and an impartial assessment of the circumstances of its passage, some legislative purpose or factual predicate adequate to support the exercise of that power. ... Such an inquiry necessarily focuses upon whether or not the objectives of the legislation are within the scope of Congress' power under section 5 of the Fourteenth Amendment.

Ramirez v. Puerto Rico Fire Service, 715 F.2d 694, 698 (11th Cir. 1983) (citations omitted); *see also EEOC v. Elrod*, 674 F.2d 601, 608 (7th Cir. 1982) (stating that "the inquiry is whether the *objectives* of the legislation are within Congress' power under the amendment") (emphasis in original).

Fitzpatrick v. Bitzer, 427 U.S. 445 (1976), where this Court first announced the doctrine that Congress may abrogate Eleventh Amendment immunity pursuant to the Fourteenth Amendment, did not directly answer the question of how to identify appropriate Fourteenth Amendment enforcement action. There was no need to do so in that case, because the issue was not in dispute in

Fitzpatrick, a Title VII case that clearly implicated core Fourteenth Amendment concerns. *See* 427 U.S. at 453 n.9. The *Fitzpatrick* Court nevertheless emphasized that the purpose of section 5 is to enforce the guarantees of the Fourteenth Amendment. *See id.* at 453-56. If, as here, the protections of the Fourteenth Amendment are completely inapposite to the legislation in question, the statute cannot be considered an appropriate exercise of Fourteenth Amendment authority.

This Court recently reaffirmed its teaching that Congress's power under section 5 of the Fourteenth Amendment is remedial, not substantive, in *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997). "Any suggestion that Congress has a substantive, non-remedial power under the Fourteenth Amendment is not supported by our case law." *Id.* at 2167. Congress may enforce the guarantees of the Fourteenth Amendment as they have been interpreted by the courts, but Congress may not extend or reinterpret those protections:

> If Congress could define its own powers by altering the Fourteenth Amendment's meaning, no longer would the Constitution be "superior paramount law, unchangeable by ordinary means." . . . Under this approach, it is difficult to conceive of a principle that would limit congressional power.

Id. at 2167 (quoting *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 177 (1803)).

CSB argues that the TRCA does rest, at least in part, on the enforcement authority of the Fourteenth Amendment because the Act was intended to protect "property." As applied to the Lanham Act claims asserted here, however, CSB's argument fails because this case does not directly involve any kind of property. The Lanham Act claims brought against Florida Prepaid are complaints

about alleged false advertising. CSB has not asserted any claims for trademark infringement.

The false advertising prong of the Lanham Act is separate and distinct from the trademark infringement prong. *See, e.g., Stanfield v. Osborne Industries*, 52 F.3d 867, 873 (10th Cir.) (finding "two distinct bases of liability under [15 U.S.C.] section 1125"), *cert. denied*, 516 U.S. 920 (1995); *Parameter Driven Software v. Massachusetts Bay Insurance Co.*, 25 F.3d 332, 337 (6th Cir. 1994); *Agee v. Paramount Communications, Inc.*, 853 F. Supp. 778, 790 (S.D.N.Y. 1994) (noting that "[s]ection 43(a) [of the Lanham Act] provides two distinct causes of action. . . . 'product infringement' claims, and . . . 'false advertising' claims"), *aff'd in part & rev'd in part*, 59 F.3d 317 (2d Cir. 1995). An interest in being free of alleged false advertising simply does not qualify as a property right for purposes of the due process clause of the Fourteenth Amendment. "A false advertising claim implicates the Lanham Act's purpose of preventing unfair competition," *Stanfield*, 52 F.3d at 873, but does not implicate the substantive guarantees of the Fourteenth Amendment, and therefore cannot be the basis for the abrogation of Eleventh Amendment immunity.

CSB cites cases discussing the Lanham Act's general protection of "property rights." *See* Pet. at 16-17. None of these cases, however, holds that a *false advertising claim* constitutes a property right, let alone a right that may be enforced via the Fourteenth Amendment. CSB is left to rely on cases discussing trademark rights or "unfair competition" in generic terms. Florida Prepaid is accused of nothing more than making misrepresentations about *its own* tuition payment program. CSB's interest in opposing such statements may create a right of action under the Lanham Act, but does not create a property right in such opposition.

According to CSB, the tort of unfair competition, "by definition," protects property interests. Pet. at 16. Virtually every

conceivable tort, however, relates in some fashion to either property interests or personal interests. If these interests, merely because they are "protected" by tort law, are deemed to constitute property or liberty rights subject to Fourteenth Amendment guarantees, then under CSB's analysis Congress would have the authority to make the states amenable to suit in federal court on any common law tort, as long as it had been "federalized" through legislation. *See* Pet. at 16 ("[T]he Fourteenth Amendment, by affording protection to 'property,' by its terms extends to the tort of unfair competition."). The Court of Appeals understood the implications of CSB's extreme position, and rightly rejected CSB's argument.

CSB relies heavily on the notion that a "business" is a property right. This Court has never held, however, that the Due Process Clause of the Fourteenth Amendment protects the right to be free in one's business from a competitor's false advertising, even if the alleged false advertising comes from a state actor. The connection between such conduct and a genuine, protectible property right is simply too tenuous. Thus, even an unequivocal congressional attempt to constitutionalize causes of action for false advertising would fail to pass muster under the rule of *City of Boerne*. Congress lacks the authority to craft its own applications of the Due Process Clause, particularly where the resulting remedial scheme imposes "a heavy litigation burden on the States" and "contradicts vital principles necessary to maintain separation of powers and the federal balance." *City of Boerne*, 117 S. Ct. at 2171, 2172.

Tellingly, CSB's expansive theory of business torts and the Fourteenth Amendment should have compelled a different result in *Seminole Tribe* itself.[4] The CSB logic is inexorable: A casino is

4. The Court of Appeals for the Eleventh Circuit rejected a more narrowly conceived Fourteenth Amendment argument in *Seminole Tribe*. *Seminole Tribe of Florida v. Florida*, 11 F.3d 1016, 1025 (11th Cir. 1994), *aff'd*, 517 U.S. 44 (1996). The Tribe gave up and did not press the clearly meritless argument before this Court.

a business; therefore, the right to operate a casino is a property right with which the state may not "interfere" without violating the Fourteenth Amendment. If the state of Florida, in alleged violation of a federal statute, refuses to negotiate a gaming compact with an Indian tribe, thus "interfering" with the Tribe's right to operate a casino, the Tribe may sue the state in federal court. The result is that the Eleventh Amendment is swept away by the Fourteenth. This syllogism is every bit as plausible as CSB's argument that it should be able to sue Florida Prepaid for false advertising. The fact that both this Court and the Eleventh Circuit appeared to overlook this analysis in *Seminole Tribe*, however, strongly suggests that the argument is merely sophistry.

This case simply does not involve property that Congress may protect under the Fourteenth Amendment. Congress has no power, under the Fourteenth Amendment or any other provision of the Constitution, to strip the states of their Eleventh Amendment immunity and subject them to suits for false advertising. To hold otherwise would be to dismiss the Eleventh Amendment altogether. The question is not, as CSB puts it, whether property rights may be "bifurcated" into those that are protected by the Fourteenth Amendment and those that are not. Pet. at 15, 22. The real question is whether simply labeling an interest as "property" automatically confers upon Congress the power to legislate without regard for the Eleventh Amendment. The Court of Appeals has answered that question correctly: No.[5]

5. CSB accuses the Court of Appeals of "confusion," Pet. at 22, merely because the court properly limited its decision to the case before it, which involved only allegations that a state actor had engaged in false advertising by misleadingly describing *its own* products. CSB mistakenly claims that there is "no principled distinction" between misrepresentations concerning one's own product and misrepresentations concerning a competitor's product. Pet. at 21. The difference is in the degree to which the misrepresentations can cause direct harm to the competitor. CSB's failure to recognize this distinction demonstrates the invalidity of CSB's "one size fits all" theory of business property rights, which refuses to acknowledge that some impacts on property can be too remote to constitute deprivations in violation of due process.

Finally, the conflict alleged by CSB between the decision below and the decision of the Federal Circuit in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1355 (Fed. Cir. 1998), does not warrant granting certiorari in this case. The instant case concerns a narrow provision of the Lanham Act that likely would seldom be applied to the states, whereas the Federal Circuit's decision involves the fertile litigation ground of patent infringement. Florida Prepaid agrees that the two decisions advance opposing theories of the relationship between the Eleventh Amendment and the Fourteenth Amendment, but granting certiorari here would not enable the Court to address that dispute because of the unusual facts of this case and because the narrow decision of the Third Circuit is so clearly correct. The decision fits so well into the complex of existing law that it is likely to have very limited importance as a precedent in its own right.

The real cause of the conflicting rationales of the two opinions is the Federal Circuit's refusal to acknowledge any limits on congressional power to use the Fourteenth Amendment to protect rights created under Article I.[6] The only way to review that position effectively would be to issue a writ of certiorari to the Federal Circuit. As noted above, Florida Prepaid intends to file a petition for a writ of certiorari in the patent infringement action, which involves a close legal issue of greater importance, broader application, and greater frequency of occurrence than false advertising under the Lanham Act, and thus would be a far superior vehicle for refinement of the rule of *Seminole Tribe*.[7] The

6. In this respect, the opinion of the Federal Circuit also is at odds with the decision of the Fifth Circuit in the *Chavez* case.

7. While the decision of the Third Circuit follows directly from the teachings of *Seminole Tribe* and Fourteenth Amendment jurisprudence, these same authorities cast serious doubt upon the abrogation of Eleventh (Cont'd)

application of *Seminole Tribe* to patent infringement litigation, which raises significant issues that can be settled only by this Court, is unrelated to the limited and plainly correct decision of the Third Circuit in the instant Lanham Act case.

Accordingly, the TRCA is unconstitutional as applied in this case, as the Court of Appeals properly held. This Court should deny the writ because nothing would be gained from the review of a clearly correct, narrowly focused decision.

II.

THE COURT OF APPEALS PROPERLY HELD THAT THE DOCTRINE OF "CONSTRUCTIVE WAIVER" OF *PARDEN v. TERMINAL RAILWAY OF ALABAMA DOCKS DEPARTMENT* DOES NOT APPLY TO A STATE'S EFFORTS TO FOSTER ITS CITIZENS' EDUCATIONAL ATTAINMENT.

After *Seminole Tribe*, Congress can no longer claim authority under Article I of the Constitution to abrogate state sovereign immunity. Petitioner therefore resorts to the "constructive waiver" doctrine of *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184 (1964), as a basis for jurisdiction. *Parden* held that a state which engages in commercial activities

(Cont'd)
Amendment sovereign immunity in patent infringement litigation. The overly broad view of Fourteenth Amendment enforcement power espoused by the Federal Circuit, which is fundamentally at odds with *Seminole Tribe* and threatens to reduce the constitutional principles of the Eleventh Amendment to a matter of congressional discretion, is worthy of review by this Court. This is all the more so because that mistaken approach to patent infringement litigation will have a pervasive, nationwide adverse impact on the states, and is not open to challenge in patent litigation in other circuits because the Federal Circuit has exclusive jurisdiction over patent appeals.

subject to congressional regulation relinquishes its Eleventh Amendment immunity and subjects itself to suit in federal court for claims relating to those activities. *See* 377 U.S. at 192.

A. The *Parden* Doctrine Cannot Apply Here Because Florida Prepaid Is An Agency Of The State Of Florida Carrying Out A Core Governmental Function, And Because The Lanham Act Does Not Provide The Notice Required To Create A Waiver Of Eleventh Amendment Immunity.

Even if the *Parden* waiver doctrine remained viable after *Seminole Tribe*, it could apply only to situations where a state is involved in an area of commerce not normally occupied by government. *See Employees v. Missouri Department of Public Health & Welfare*, 411 U.S. 279, 284-85 (1973). CSB argues, however, that Florida Prepaid is engaged in a proprietary enterprise not traditionally occupied by state government, and is therefore vulnerable to *Parden*. *See* Pet. at 25-27. This contention is wrong. Florida Prepaid helps the state of Florida to provide education — an undeniably central function of state government. Accordingly, *Parden* cannot apply to the activities of Florida Prepaid.

Florida Prepaid's primary goal is advancing education. This Court long has recognized the fact that "education is perhaps the most important function of state government." *Brown v. Board of Education*, 347 U.S. 483, 493 (1954). The Court recently reaffirmed that education is an area "where States historically have been sovereign." *United States v. Lopez*, 514 U.S. 549, 564 (1995). In *Lopez*, a case not involving the Eleventh Amendment, this Court struck down legislation founded on a sweeping interpretation of congressional power under the Commerce Clause. *See also Skehan v. State System of Higher Education*, 815 F.2d 244, 247-49 (3d Cir. 1987) (holding that the Pennsylvania State System of Higher Education, "a body corporate and politic" created by state law to administer educational institutions, was entitled to claim Eleventh

Amendment immunity, and stating that "[p]roviding education has long been recognized as a function of state government").

CSB largely disregards the promotion of educational objectives in its discussion of the activities of Florida Prepaid. Certainly, providing a state agency which exists for the purpose of helping people pay for the education of Florida citizens at Florida universities and community colleges is vital to Florida's attainment of its educational objectives in operating these institutions; an empty school that citizens cannot afford to attend does nothing to achieve the goal of education.[8] Florida Prepaid provides a substantial benefit that directly and significantly promotes the educational objectives of the State of Florida, as the Court of Appeals found:

> Florida Prepaid serves the important government interest of education by making it affordable to its citizens.

Pet. App. at 24a.

CSB's argument that *Parden* was applied incorrectly is based entirely on the fact that prepaid tuition programs are not operated *exclusively* by state governments. This argument badly misses the mark. Florida Prepaid pursues the larger goal of making higher education available and affordable to its citizens, and that is a traditional state activity — a core function of the states. State governments operate college and university systems that, in appropriate cases, can assert Eleventh Amendment immunity. *See, e.g., Regents of the University of California v. Doe*, 117 S. Ct. 900, 902 & n.2 (1997) (noting the Ninth Circuit's recognition of

8. Other states are pursuing similar education strategies. *See, e.g., Michigan v. United States*, 40 F.3d 817 (6th Cir. 1994) (holding that Michigan Education Trust, a state entity operating a prepaid tuition program, has tax-exempt status).

immunity of the University of California). Obviously, however, states are not the exclusive administrators of such institutions. Under CSB's view, a state university always would be subject to the *Parden* doctrine, and thus never could claim the protection of the Eleventh Amendment. Indeed, CSB's crudely literal reading of the formula in *Parden* that a state may waive its immunity if it "leaves the sphere that is exclusively its own," Pet. at 24 (quoting 377 U.S. at 196), would strip states of their immunity for doing anything other than operating a legislature, an executive and a judiciary. The Court of Appeals correctly held that *Employees v. Missouri Department of Public Health & Welfare*, 411 U.S. 279, 284-85 (1973), modified *Parden* by expanding the scope of important state activities that would not implicate constructive waivers of sovereign immunity. *See* Pet. App. at 19a.

Because Florida Prepaid is performing a role traditionally undertaken by state governments — making available affordable educational benefits — the Court of Appeals properly held that the *Parden* doctrine cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment. This Court has no need to review that correct result.[9]

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9. There are two additional reasons for declining to apply *Parden* in this case, even assuming that the doctrine itself is viable. First, the Florida Prepaid activity attacked here predates the congressional attempt to make the state amenable to suit under the Lanham Act. The Florida Prepaid program was enacted in 1987 and began operations in 1988. The TRCA did not become effective until October 27, 1992. Thus, Florida Prepaid was engaged in the activity of education financing years before Congress purported to condition participation in such activity on a "waiver" of sovereign immunity. Nothing in *Parden* suggests that Congress can extract a retroactive waiver from states engaged in activities newly subject to legislation. *See Close v. New York*, 125 F.2d 31, 40 (2d Cir. 1997) ("[G]iven that New York had employees before the enactment of the FLSA and before it was made applicable to the States, its continued status as an employer cannot realistically be construed as a waiver of immunity.").

(Cont'd)

B. The *Parden* Doctrine Does Not Warrant Further Attention From This Court Because It Is Fundamentally Inconsistent With The Teachings Of *Seminole Tribe*, Which Established That Congress Has No Power Under The Commerce Clause To Curtail Eleventh Amendment Immunity.

Even if the application by the Court of Appeals of the *Parden* doctrine to the facts of this case were open to criticism, it would serve no purpose for this Court to grant certiorari in order to review that application. After *Seminole Tribe*, the *Parden* doctrine has no future as part of our constitutional jurisprudence, and therefore deserves no consideration from this Court. Only in the unlikely event of a holding from a court of appeals that the *Parden* doctrine remains viable would this Court have reason to grant certiorari to confirm that *Parden* does not survive *Seminole Tribe*. The decision of the Court of Appeals here, merely declining to apply *Parden*, need not be disturbed.

If the teaching of *Seminole Tribe* is followed, a state's mere participation in an area subject to legislation that includes a congressional attempt to curtail sovereign immunity cannot create

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(Cont'd)

Moreover, only a strained reading of the TRCA can support the hypothesis that Congress has alerted states to the loss of their Eleventh Amendment immunity as the consequence of their decision to operate prepaid tuition programs. The TRCA has nothing in particular to do with prepaid tuition programs or other such financial mechanisms. The Act applies to commerce in general, not to any special area of commerce, and thus cannot reasonably be deemed to "warn" a state of a loss of sovereign immunity resulting from participation in a defined type of commerce. Florida Prepaid therefore respectfully disagrees with the view of the Court of Appeals that *Parden* can be triggered because "the [TRCA] declares that if a state or its instrumentality chooses to engage in a proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act." Pet. App. at 21a.

a "waiver" of immunity. It would be absurd, and contrary to *Seminole Tribe*, to permit an unlawful, invalid attempt to abrogate the Eleventh Amendment actually to achieve the same result by positing a "waiver" that arises out of nothing more than a state's carrying out its activities in the regulated area. Congress cannot achieve indirectly, through "waiver," what it cannot do directly, through express abrogation.

Parden permits Congress to require states to cede their immunity. Accordingly, a *Parden* waiver can occur only where Congress retains authority to curtail the Eleventh Amendment. No such areas remain, however, except for those subject to the nonsubstantive, remedial enforcement power of the Fourteenth Amendment. And even in those few areas, *Parden* is superfluous. The requirement that Congress expressly declare its intent to subject the states to suit, *see Welch v. Texas Department of Highways & Public Transportation*, 483 U.S. 468, 478 (1987), means that any legislation enacted pursuant to an appropriate exercise of section 5 enforcement authority will itself abrogate Eleventh Amendment immunity, making a later finding of "waiver" under *Parden* unnecessary and beside the point.

The decision in *Parden* to the effect that states could implicitly waive their Eleventh Amendment immunity through participation in a regulated field was inextricably linked to — indeed, was based on — the view of this Court in 1964 that Congress enjoyed authority under the Commerce Clause to curtail Eleventh Amendment immunity. Squarely addressing the question of congressional authority, the *Parden* Court stated:

> Respondents contend that Congress is without power, in view of the immunity doctrine, thus to subject a State to suit. We disagree. Congress enacted the FELA [Federal Employers' Liability Act] *in the exercise of its constitutional power to regulate*

> *interstate commerce*. . . . While a State's immunity from suit by a citizen without its consent has been said to be rooted in "the inherent nature of sovereignty," . . . *the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce*. . . . By empowering Congress to regulate commerce, then, the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation. Since imposition of the FELA right of action upon interstate railroads is within congressional regulatory power, it must follow that application of the Act to such a railroad cannot be precluded by sovereign immunity.

377 U.S. at 191-92 (emphasis added; citations and footnotes omitted). The suggestion that Alabama, the state in question, "necessarily consented" to suit by operating the railroad, *id.* at 192, was the conclusion, rather than the premise, of the Court's reasoning regarding the Commerce Clause and the Eleventh Amendment.

The holding of *Parden* depends on a now discredited view of congressional authority under the Commerce Clause to restrict Eleventh Amendment immunity.[10] This Court correctly summarized the essential holding of *Parden* in *Welch*, where the Court applied to the *Parden* doctrine the requirement of *Atascadero State Hospital v. Scanlon*, 473 U.S. 234 (1985), that "an abrogation of Eleventh Amendment immunity by Congress must be expressed in unmistakably clear language." *Welch*, 483 U.S. at 478. The Court also noted that "we have no occasion in this case to consider the validity of the additional holding in *Parden*, that Congress has the power to abrogate the States' Eleventh Amendment immunity

10. *See, e.g.*, Vazquez, 106 Yale L.J. at 1698 & n.67 (describing Justice Brennan's view in *Parden* as "a broad theory of congressional power to abrogate sovereign immunity under Article I").

under the Commerce Clause to the extent that the States are engaged in interstate commerce." *Id.* at 478 n.8. Clearly, the Court in *Welch* saw little reason to distinguish between the nomenclature of "waiver" and that of "abrogation"; the practical effect of the elimination of Eleventh Amendment immunity by congressional action was correctly deemed the only relevant consideration.

Moreover, in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), the case that finally stated unambiguously that the Commerce Clause authorizes Congress to abrogate state immunity (and which now has been overruled by *Seminole Tribe*), Justices on both sides of the issue acknowledged that *Parden*'s continued vitality depends on whether or not direct abrogation authority exists under the Commerce Clause. The plurality opinion observed:

> Though we have never squarely resolved this issue of congressional power, our decisions mark a trail unmistakably leading to the conclusion that Congress may permit suits against the States for money damages. The trail begins with *Parden v. Terminal Railway of Alabama Docks Dept.*, 377 U.S. 184 (1964). There, in responding to a state-owned railway's argument that Congress had no authority to subject the railway to suit, we concluded that "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce," *id.*, at 191, and that "[b]y empowering Congress to regulate commerce, . . . the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation," *id.*, at 192. Although it is true that we have referred to *Parden* as a case involving a waiver of immunity, *Fitzpatrick v. Bitzer*, 427 U.S. 445, 451 (1976), the statements quoted above lay a firm foundation for the argument that Congress' authority

> to regulate commerce includes the authority directly to abrogate States' immunity from suit.

491 U.S. at 14. Thus, if "the argument that Congress' authority to regulate commerce includes the authority directly to abrogate States' immunity from suit" is rejected, as it was in *Seminole Tribe*, *Parden* must be rejected as well.

Dissenting in *Union Gas*, Justice Scalia, who was part of the majority in *Seminole Tribe*,[11] argued that even viewing *Parden* as a waiver case could not save it from constitutional infirmity under the analysis that eventually triumphed in *Seminole Tribe*:

> *Parden* is the only case in which we have held that the Federal Government can demand, as a condition to its permission of state action regulable under the Commerce Clause, the waiver of state sovereign immunity. . . . [I]n *Welch*, we overruled *Parden* insofar as that case spoke to the clarity of language necessary to constitute such a demand. . . . We explicitly declined to address, however, the continuing validity of *Parden*'s holding that the Commerce Clause provided the constitutional power to make such a demand. . . . I would drop the other shoe.
>
> There are obvious and fatal difficulties in acknowledging such a power if no Commerce Clause power to abrogate state sovereign immunity exists. All congressional creations of private rights of action attach recovery to the defendant's commission of some act, or possession of some status, in a field where Congress has authority to

11. This portion of Justice Scalia's opinion in *Union Gas* was joined by Chief Justice Rehnquist, Justice O'Connor, and Justice Kennedy.

regulate conduct. Thus, *all* federal prescriptions are, insofar as their prospective application is concerned, in a sense conditional, and — to the extent that the objects of the prescriptions consciously engage in the activity or hold the status that produces liability — can be redescribed as invitation to "waiver." . . . [T]o acknowledge that the Federal Government can make the waiver of state sovereign immunity a condition to the State's action in a field that Congress has authority to regulate is substantially the same as acknowledging that the Federal Government can eliminate state sovereign immunity in the exercise of its Article I powers. . . . There is little more than a verbal distinction between saying that Congress can make the Commonwealth of Pennsylvania liable to private parties for hazardous-waste cleanup costs on sites that the Commonwealth owns and operates, and saying the same thing but adding at the end "if the Commonwealth chooses to own and operate them." If state sovereign immunity has any reality, it must mean more than this.

Union Gas, 491 U.S. at 42-44 (Scalia, J., concurring in part and dissenting in part) (citations and footnotes omitted).

Justice Scalia's prescient opinion in *Union Gas* makes clear that because Congress has no power to abrogate Eleventh Amendment immunity under the Commerce Clause, *Parden*-style waivers are impossible. After *Seminole Tribe*, then, the only issue remaining is a rather academic one, namely, whether any further express action by this Court is necessary to dispose of *Parden*'s remnants. Florida Prepaid submits that a fair reading of *Seminole Tribe*, in light of the history and constitutional foundation of the *Parden* doctrine, compels the conclusion that *Seminole Tribe* itself abolished the *Parden* waiver doctrine. Congress's power to extract

a "waiver" from states must rest on some constitutional foundation, for Congress cannot act absent such authority. The only possible source of that power — indeed, the source explicitly identified in *Parden* — is the Commerce Clause. Once it has been determined that the Commerce Clause does not authorize Congress to curtail Eleventh Amendment immunity, then the only constitutional underpinning of the *Parden* doctrine has been destroyed. It is simply a necessary corollary of the holding in *Seminole Tribe* that *Parden*-based constructive waivers have been eliminated.

The District Court below held, as Florida Prepaid argued, that *Parden* did not survive *Seminole Tribe*. *See* Pet. App. at 68a-73a. The Court of Appeals found it unnecessary to reach this issue because of its holding that *Parden* was inapplicable on its own terms. Thus, granting certiorari on the *Parden* issue would accomplish little. It would not justify the expenditure of resources by this Court to review the correct application of *Parden* by the Third Circuit here or to confirm the demise of the *Parden* doctrine already recognized by lower courts.[12]

The *Parden* doctrine, never robust, is now a dead letter. The Court of Appeals for the Fifth Circuit already has reached precisely that conclusion. *Chavez v. Arte Publico Press*, 139 F.3d 504, 508 (5th Cir. 1998) (holding that "[a] fair reading of *Seminole*" compels the conclusion that forced waivers of immunity are impermissible), *pet. for reh'g pending*. Other courts have recognized this legal reality. The Fourth Circuit has acknowledged:

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12. An affirmance of the holding of the Court of Appeals would simply confirm the severely limited scope of a doctrine that was virtually never applied even before *Seminole Tribe*. According to the Eleventh Circuit, the *Parden* doctrine was barely viable even before this Court's decision in *Seminole Tribe*: "[A]lthough *Parden* may not be entirely dead, it certainly is not quick enough to breathe life into the Indian tribes' claims in these cases." *Seminole Tribe*, 11 F.3d at 1023.

> We realize that the power to define waiver can become the functional equivalent of the power to abrogate. Indeed, defining waiver as anything less than "the sort of voluntary choice which we generally associate with the concept of constitutional waiver" permits Congress to do indirectly what it perhaps could not do otherwise.

AER-Aerotron, Inc. v. Texas Department of Transportation, 104 F.3d 677, 681 (4th Cir. 1997) (quoting *Employees v. Missouri Department of Public Health & Welfare*, 411 U.S. 279, 296 (1973) (Marshall, J., concurring)). One of the members of the *AER-Aerotron* panel faced the issue even more directly in a concurrence:

> [I]f *Seminole Tribe* made anything clear, it is that Eleventh Amendment immunity is a function of a State's sovereign constitutional status, not Congress' Article I powers. . . . *Seminole Tribe* held that Congress' Article I powers are irrelevant to an Eleventh Amendment waiver. Instead, a state's actions waive immunity when such actions are independently sufficient under Eleventh Amendment doctrine.

104 F.3d at 683 (Niemeyer, J., concurring). The Second Circuit has been equally blunt:

> *Parden*'s viability, in light of *Seminole Tribe*, is precarious. If Congress no longer has the power to abrogate state sovereign immunity under Article I, constructive consent should not become a shunt to Article III bypassing the mandate of the Supreme Court.

Close v. New York, 125 F.3d 31, 40-41 (2d Cir. 1997); *see also American Federation of State, County & Municipal Employees v. Virginia*, 949 F. Supp. 438, 442 (W.D. Va. 1996) (holding that *Seminole Tribe* "essentially rejected" the reasoning of *Parden*), *aff'd on other grounds*, 145 F.3d 182 (4th Cir. 1998).

In sum, the *Parden* waiver doctrine is based on a premise that this Court re-examined and rejected in *Seminole Tribe*. It is probable that any future court of appeals that finds itself obliged to address this issue will reach that conclusion. This Court might have cause to consider granting certiorari if a court of appeals were to hold that the *Parden* doctrine *survived* the decision in *Seminole Tribe*, and actually found a valid abrogation of sovereign immunity on that basis. But where, as here, the result is merely that *Parden* is held inapplicable, there is no reason for this Court to intervene. The obsolete *Parden* doctrine simply does not warrant further consideration by this Court.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

WILLIAM B. MALLIN
Counsel of Record
LEWIS F. GOULD, JR.
JOSEPH M. RAMIREZ
ECKERT SEAMANS CHERIN
& MELLOTT, LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
(412) 566-6000

LOUIS F. HUBENER
Assistant Attorney General
Office of the Attorney General
The Capitol
Tallahassee, FL 32399-1050
(850) 414-3300

Attorneys for Respondent

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No. 98-149

In the Supreme Court of the United States

OCTOBER TERM, 1998

COLLEGE SAVINGS BANK, PETITIONER

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

SETH P. WAXMAN
Solicitor General
Counsel of Record
FRANK W. HUNGER
Assistant Attorney General
MARK B. STERN
MICHAEL E. ROBINSON
Attorneys
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

HPP

QUESTIONS PRESENTED

1. Whether, in subjecting state entities to suit in federal court for engaging in false advertising of their own commercial products, Congress validly exercised its authority under Section 5 of the Fourteenth Amendment.

2. Whether a state entity waives its Eleventh Amendment immunity from suit in federal court by marketing a prepayment tuition plan.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-27a) is reported at 131 F.3d 353. The opinion of the district court (Pet. App. 28a-92a) is reported at 948 F. Supp. 400.

JURISDICTION

The judgment of the court of appeals was entered on December 5, 1997. A petition for rehearing was denied on February 17, 1998. On April 21, 1988, Justice Souter extended the time for filing a petition for a writ of certiorari to and including July 17, 1998. The petition for a writ of certiorari was filed on July 17, 1998. The

jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. College Savings Bank (petitioner), markets CollegeSure(R) CD's, a deposit contract for financing future college expenses. Pet. App. 2a. Petitioner obtained a patent for its financing methodology. *Ibid.* The State of Florida created the Florida Prepaid Postsecondary Education Expense Board (respondent) to market and sell tuition prepayment programs designed to cover future college expenses. *Id* at 3a. Petitioner and respondent compete in selling their tuition plans. *Ibid.*

Petitioner filed suit against respondent in the United States District Court for the District of New Jersey, alleging that respondent had made false and misleading statements about its own tuition prepayment program, in violation of Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a). Pet. App. 3a.* Although respondent is a state entity, the Trademark Remedy Clarification Act of 1992 (TRCA), Pub. L. No. 102-542, 106 Stat. 3567, subjects state entities to suit under the Lanham Act. Following this Court's decision in *Seminole Tribe* v. *Florida*, 517 U.S. 44 (1996), respondent moved to dismiss petitioner's Lanham Act claim, contending that the TRCA is unconstitutional insofar as it attempts to abrogate a state entity's Eleventh Amendment immunity. Pet. App. 4a. The United States intervened to defend the constitutionality of the TRCA. *Ibid.*

The district court dismissed petitioner's Lanham Act claim on Eleventh Amendment grounds. Pet. App. 28a-92a. The district court held that the TRCA did not fall within Congress's power under Section 5 of the Fourteenth Amendment to protect property interests against state deprivations without due process of law. The district court reasoned that "[a]n interest in being free from alleged false advertising simply does not qualify as a property right for purposes of the Due Process Clause of the Fourteenth Amendment." Pet. App. 89a. The district court also rejected the argument that, by marketing a prepaid tuition plan, respondent waived its immunity from suit under the doctrine of *Parden* v. *Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184 (1964). The district court concluded that *Seminole Tribe* implicitly overruled the *Parden* waiver doctrine. Pet. App. 68a-73a.

3. The court of appeals affirmed. Pet. App. 1a-27a. The court of appeals held that, as applied in this case, the TRCA is not a valid exercise of Congress's authority under Section 5 of the Fourteenth Amendment to prevent deprivations of property without due process. *Id.* at 17a. The court concluded that the claim asserted in this case—the right to be free from false claims made by a competitor about its own product—is not a property right protected by the Fourteenth Amendment. *Id.* at 14a. The court also concluded that, while a business is a property interest protected by the Fourteenth Amendment, a competitor's false claims about its own product does not result in a deprivation of that interest within the meaning of the Fourteenth Amendment. *Id.* at 15a-17a.

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* Petitioner filed a separate action against respondent, alleging that respondent had infringed its patent. Pet. App. 3a. That action is not at issue here. We note, however, that the district court rejected respondent's Eleventh Amendment challenge to that action, the Federal Circuit affirmed that decision, and respondent has filed a petition for a writ of certiorari from the Federal Circuit's judgment (No. 98-531).

The court of appeals also held that respondent did not waive its immunity from suit under the *Parden* waiver doctrine. The court held that the *Parden* waiver doctrine does not apply to core governmental activity, and it concluded that providing financing for state education is a core governmental activity. Pet. App. 22a. The court of appeals did not reach the question whether *Seminole Tribe* implicitly overruled the *Parden* waiver doctrine. *Id.* at 24a.

ARGUMENT

Petitioner contends (Pet. 10) that review is warranted because the court of appeals invalidated an Act of Congress. That characterization vastly overstates the court of appeals' holding. The court of appeals held only that "the TRCA, as applied in this case, is an unconstitutional exercise of Congress' powers." Pet. App. 17a. The court of appeals "carefully confined" its holding to petitioner's "narrow allegations" that respondent had misrepresented its own products. *Ibid.* The court of appeals "express[ed] no opinion as to whether the TRCA may be applied constitutionally in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services." *Ibid.* The court of appeals' limited ruling that the Eleventh Amendment bars the narrow claim brought by petitioner does not conflict with any other appellate decision. This Court's review is not warranted.

1. In *Fitzpatrick* v. *Bitzer*, 427 U.S. 445 (1976), the Court held that Congress has authority under Section 5 of the Fourteenth Amendment to abrogate a State's immunity from suit. In *Seminole Tribe*, the Court did not disturb that holding. 517 U.S. at 59, 65-66. Relying on *Fitzpatrick*, petitioner contends (Pet. 13-22) that

subjecting States to suit in federal court for engaging in unfair competition in the form of false advertising is a permissible exercise of Congress's power under Section 5 of the Fourteenth Amendment. In particular, petitioner argues that subjecting States to suit in federal court for engaging in such unfair competition may be viewed as a permissible effort on the part of Congress to prevent States from depriving businesses of their property without due process of law.

The Fourteenth Amendment, however, "does not protect a business against the hazards of competition." *Hegeman Farms Corp.* v. *Baldwin*, 293 U.S. 163, 170 (1934). Moreover, in providing for protection against unfair competition in the form of false advertising, Congress did not purport to create a property right in being free from that form of competition. An action for unfair competition "is not predicated upon a violation of the plaintiff's property right, but upon the defendants' failure to conform to an affirmative code of ethics arising out of the competitive relationship." 1A L. Altman, *Callmann on Unfair Competition, Trademarks and Monopolies* § 5.01, at 4 (4th ed. 1994). And, as this Court has explained, "[t]he law of unfair competition has its roots in the common-law tort of deceit: its general concern is with protecting *consumers* from confusion as to source * * * not the protection of producers." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989).

Petitioner's argument reduces to the contention that the Fourteenth Amendment is implicated any time that a state entity engages in a tort that causes injury to a person or his property. This Court has made clear, however, that the Fourteenth Amendment "does not purport to supplant traditional tort law in laying down rules of conduct to regulate liability for injuries that at-

tend living together in society." *Daniels* v. *Williams*, 474 U.S. 327, 332 (1986). The Court has also repeatedly held that a tort does not rise to the level of a deprivation of property or liberty for Fourteenth Amendment purposes merely because the defendant is a state entity. *Baker* v. *McCollan*, 443 U.S. 137, 146 (1979) ("false imprisonment does not become a violation of the Fourteenth Amendment merely because the defendant is a state official"); *Daniels* v. *Williams*, 474 U.S. at 333 ("injuries inflicted by governmental negligence are not addressed by the United States Constitution"); *cf. Estelle* v. *Gamble*, 429 U.S. 97, 106 (1976) ("[m]edical malpractice does not become a constitutional violation merely because the victim is a prisoner"). It was, accordingly, reasonable for the court of appeals to refuse to view the Lanham Act's prohibition on the false advertising of one's own commercial products as an exercise of Congress's power under Section 5 to prevent deprivations of property without due process of law.

Petitioner errs in contending (Pet. 11) that the decision in this case conflicts with the Federal Circuit's decision in *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343 (1998), petition for cert. pending, No. 98-531. In the latter case, the Federal Circuit held that Congress had authority under Section 5 of the Fourteenth Amendment to subject States to suit in federal court for patent infringement, in part on the ground that patent rights are a species of property protected by the Fourteenth Amendment. *Id.* at 1349-1350. There is no inconsistency between that holding and the holding of the court below that Congress did not have authority under Section 5 to subject States to suit in federal court for misrepresenting their own products, on the ground that protection of a competitor against such misrepresentation is not a species of property protected by the Fourteenth Amendment.

2. Petitioner also contends (Pet. 22-27) that, by marketing a prepayment tuition plan, respondent waived its immunity from suit under the *Parden* waiver doctrine. That contention does not warrant review.

a. In *Parden*, the Court held that States that operate railroads waive their immunity from suit under the Federal Employers' Liability Act. The Court reasoned as follows:

> [B]y enacting the FELA * * * Congress conditioned the right to operate a railroad in interstate commerce upon amenability to suit in federal court as provided by the Act; by thereafter operating a railroad in interstate commerce, Alabama must be taken to have accepted that condition and thus to have consented to suit.

377 U.S. at 192.

In *Employees of the Department of Public Health & Welfare* v. *Missouri*, 411 U.S. 279, 284 (1973), the Court held that the *Parden* waiver doctrine applies when a State operates a business for profit in an area where private persons and corporations normally run the enterprise, but not when the State operates non-proprietary, non-profit institutions. In *Welch* v. *Texas Department of Highways & Public Transportation*, 483 U.S. 468, 478 (1987), the Court held that *Parden* is inapplicable when Congress fails to express its intent to subject the States to suit in unmistakably clear language. And in *Seminole Tribe*, the Court indicated that *Parden* rests on the "unremarkable * * * proposition that the States may waive their sovereign immunity." 517 U.S. at 65.

Extrapolating from this Court's decisions, the court of appeals in this case concluded that the *Parden* waiver doctrine applies when:

> (1) Congress enacts a law providing that a state will be deemed to have waived its Eleventh Amendment immunity if it engages in the activity covered by the federal legislation; (2) the law does so through a clear statement that gives notice to the states; (3) a state then engages in that activity covered by the federal legislation; and (4) the activity in question is not an important or core government function.

Pet App. 21a. The court then found that the first three requirements were met, but that the fourth was not. With respect to the fourth factor, the court reasoned that providing education is a traditional and core function of state governments and that the State's maintenance of a program that helps students and their families to pay for and finance a college education is a part of that overall goal. *Id.* at 22a-24a.

b. We disagree with the court of appeals' conclusion that respondent's marketing of its prepaid tuition plan is a core state function that falls outside the legitimate scope of the *Parden* waiver doctrine. Respondent was "created as a body corporate with all the powers of a body corporate," including the power to engage in commercial transactions with the public and the power to "[s]ue and be sued." Fla. Stat. Ann. § 240.551(5) (West 1998). Respondent markets its product outside the State of Florida and permits the transfer of deposited funds to out-of-state colleges. See *id.* § 240.551(7)(e). Respondent employs a marketing agent and advertises its investment contracts through press releases and annual "marketing materials." *Id.*

§ 240.551(5)(i). Respondent may collect administrative fees and impose penalties for delinquent payments, *id.* § 240.551(5)(c)13, and it has the authority to increase contract prices as necessary to meet its costs, Pet. App. 49a. As of June 1995, respondent had amassed total assets of nearly $1.5 billion and a surplus in excess of $184 million. *Ibid.* Respondent's earnings are invested in the program itself and may not otherwise be used by the State. Fla. Stat. Ann. § 240.551(4) and (10) (West 1998). Those circumstances sufficiently show that respondent is engaged in the operation of an essentially commercial enterprise and that it is not performing a core state function.

Review on that narrow issue, however, is not warranted. Petitioner does not challenge the court of appeals' holding that the *Parden* doctrine does not apply when the activity in question is a core state function; the court's conclusion that the activity at issue in this case is a core state function is essentially fact-bound; and there is no conflict between the court's conclusion on that issue and the decision of any other court of appeals. In these circumstances, the question whether respondent is engaged in the kind of activity that falls within the scope of the *Parden* waiver doctrine does not warrant this Court's review.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

SETH P. WAXMAN
Solicitor General
FRANK W. HUNGER
Assistant Attorney General
MARK B. STERN
MICHAEL E. ROBINSON
Attorneys

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No. 98-149

In The
Supreme Court of the United States

COLLEGE SAVINGS BANK,

Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit

PETITIONER'S REPLY BRIEF

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ
& GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

Attorneys for Petitioner

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I. Congress, Acting Pursuant To Its Powers Under Section Five Of The Fourteenth Amendment, Validly Abrogated The States' Immunity Under the Eleventh Amendment To Allow States To Be Brought Into Federal Court For Violations of § 43(a) of the Lanham Act.

Florida Prepaid and the United States take the position that the Court of Appeals was correct in finding that Congress acted beyond its constitutional power under Section Five of the Fourteenth Amendment in enacting the Trademark Remedy Clarification Act ("TRCA"),[1] to the extent that the Act abrogated the Eleventh Amendment to allow the states to be brought into federal court for violations of that portion of § 43(a) of the Lanham Act proscribing false advertising of a competitor's own product. The ability to sue a competitor for falsely describing its product, with the resulting competitive harm, is a central purpose of § 43(a), which Congress clearly intended to apply to the states by its enactment of TRCA. As is demonstrated by this case, and other cases seeking to uphold Congress' abrogation enactments, the states are engaging in widespread activity in competition with the private sector. The Court of Appeals' decision, if allowed to stand, will permit the states to engage in false advertising about their own products without fear of being held responsible for the deprivation of revenue and profits such false advertising causes.[2]

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[1] Pub. L. No. 102-542, 106 Stat. 3567 (1992).

[2] The Court of Appeals distinguished between § 43 (a) violations consisting of misrepresentation of one's own goods and services and misrepresentation of a competitor's goods and services. The harm to property interests caused by both types of misrepresentations, however, is identical. *See* Petition at 21, 22.

Both Florida Prepaid and the United States ignore the breadth of the interests found by this Court to be within the scope of the property and liberty rights protected by the Fourteenth Amendment, as shown by the decisions cited by CSB in its petition. CSB Petition at 17-20. This Court has recognized unequivocally that a "business . . . is a property right, entitled to protection against unlawful injury or interference . . . " *Duplex Co. v. Deering*, 254 U.S. 443, 465 (1920). The Court of Appeals' decision constitutes an unprecedented restriction on the scope of the property rights this Court has found to be protected by the Fourteenth Amendment.

The United States argues that "Congress did not purport to create a property right in being free from" false advertising. United States Brief at 5. Attempting to examine what Congress "purported" to create in the Lanham Act or any other enactment of Congress is neither fruitful nor determinative. The nature of the rights should be determined by the historical application and meaning of those rights as determined by the Congress and the courts. What Congress created by its adoption of the Lanham Act was an amalgam of rights including those embodied in § 43(a). The section provides a source of relief for a competitor whose revenues and profits, *i.e.* whose property, has been damaged by false advertising.

The United States relies upon a statement in *Callmann*[3] for the proposition that unfair competition does not involve a violation of property rights. United States Brief at 5. This conclusion is at odds with *Prosser and Keeton on the Law of*

[3] 1A L. Altman, *Callmann on Unfair Competition, Trademarks and Monopolies* (4th ed. 1994).

Torts, § 130 at 1015 (5th Ed. 1984) and the decisions of the judiciary, including this Court, that the basis of jurisdiction for unfair competition is the protection of property rights. *See* Petition at 16, 17.

The United States also relies upon *Hegeman Farms Corp. v. Baldwin*, 298 U.S. 163, 170 (1934). ("The appellant's grievance amounts to this, that it is operating at a loss, that other dealers more efficient, or economical or better known to the public may be operating at a profit.") That case has nothing to do with the issue before this court. CSB is not attempting to protect itself against the hazards of competition. It is attempting to make use of the decision made by Congress that private entities should be permitted to protect themselves against unfair competition by the states. Congress enacted § 43(a) of the Lanham Act to protect the competitive process. Congress later enacted TRCA in recognition of the fact that the protections of the Act needed to be applied to the states to be fully effective in achieving its purposes.

The *Bonito* decision cited by the United States also is inapplicable. It may be true that the common law tort of unfair competition has as its "general concern" the protection of "*consumers* from confusion as to source." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989). Section 43(a) of the Lanham Act, however, gives rights of action solely to competitors, not consumers. ("The intent of the Chapter is to regulate Commerce . . . to protect persons engaged in such commerce against unfair competition.") 15 U.S.C. § 1127. *See also Stanfield v. Osborne Industrials*, 52 F.3d 867,873 (10th Cir.) cert. denied, 516 U.S. 920 (1995). ("Thus, to have standing for a false advertising claim, the

plaintiff must be a competitor of the defendant and allege a competitive injury.")

The cases cited by the United States to support its argument that Congress cannot validly abrogate the states' immunity to protect the monetary property of private businesses against unfair competition construe the provisions of 42 U.S.C. § 1983.[4] An unstated, but inescapable, premise of those arguments is that the validity of Congress' exercise of its Section Five power is dependent upon a judicial determination that the underlying action by the state is unconstitutional. The provisions of § 1983 authorize claims brought directly for violations of the Constitution. Thus, the construction by this Court of the scope of that section differs fundamentally from determining the authority of Congress under Section Five of the Fourteenth Amendment.

This Court's decision in *Katzenbach v. Morgan*, 384 U.S. 641, 648, 651 (1996) disposes of the issue.

> A construction of § 5 that would require a judicial determination that the enforcement of the state law precluded by Congress violated the Amendment, as a condition of sustaining the congressional enactment, would depreciate both congressional resourcefulness and congressional responsibility for implementing the Amendment
>
> * * *

[4] *Daniels v. Williams*, 474 U.S. 327 (1986); *Baker v. McCollan*, 443 U.S. 137 (1979); and *Estelle v. Gamble*, 429 U.S. 97 (1976). United States Brief at 5 - 6.

> Correctly viewed, § 5 is a positive grant of legislative power authorizing Congress to exercise its discretion in determining whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment.

See also Fitzpatrick v. Bitzer, 527 U.S. 445 (1976); Ex parte Virginia, 100 U.S. 339 (1880); *City of Boerne v. Flores*, 117 S. Ct. 2157, 2163 (1997); and *City of Rome v. United States*, 446 U.S. 156, 177 (1980). In this Court's decision in *Seminole Tribe* these principles were again reaffirmed. *Seminole Tribe of Florida v. Florida, 517 U.S. 44 (1996).*[5]

Florida Prepaid argues that any property interest created by Congress, acting pursuant to its Article I powers, is beyond the power of Congress under Section Five of the Fourteenth Amendment. Florida Prepaid Brief at 5-11. The argument, if accepted, would severely limit, if not effectively destroy, the power of Congress under Section Five. Florida Prepaid contends that permitting Congress to establish property rights which can be enforced against the states pursuant to Section Five powers would permit the Congress to establish the substantive scope of the Fourteenth Amendment.

This Court, however, repeatedly has held that the enforcement power of Congress under Section Five of the

[5] This Court's decision in *City of Boerne*, declaring certain Congressional actions to be unconstitutional is founded primarily upon the fact that the Congress was attempting to make unconstitutional under the Fourteenth Amendment conduct that this Court previously had found to be constitutional, i.e. Congress attempted to define the substantive scope of the Amendment. *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997).

Fourteenth Amendment reaches "practices that in of themselves do not violate § 1 of the Amendment...." *City of Rome v. United States,* 446 U.S. 156, 177 (1980). Section Five grants to Congress "the same broad powers expressed in the Necessary and Proper Clause" of Article I. *Katzenbach v. Morgan*, 384 U.S. 641, 650 (1966).

Acceptance of the argument advanced by Florida Prepaid would render Congress' power under Section Five essentially superfluous, *i.e.* it would limit Congress' role to the enactment of legislation that only mirrors that which the judicial branch has found to be prohibited by the Constitution, standing alone. Florida Prepaid's argument "would confine the legislative power . . . to the insignificant role of abrogating only those state laws that the judicial branch was prepared to judge unconstitutional, or of merely informing the judgment of the judiciary by particularizing the 'majestic generalities' of § 1 of the Amendment". *Katzenbach,* 384 U.S. at 648-649.

To support its argument that Congress has no power under Section Five to abrogate the states' immunity for actions involving property rights created by Congress under Article I, Florida Prepaid relies heavily upon *Chavez v. Arte Publico Press,* 139 F.3d 504 (5th Cir. 1998), reh'g granted. That case involves the constitutionality of abrogating the states immunity under both the Copyright Act and § 43(a) of the Lanham Act. Subsequent to the filing of Florida Prepaid's brief, however, there have been two important developments in *Chavez.* First, the Fifth Circuit will rehear the case, *Chavez v. Arte Publico Press*, ___ F.3d ___ (1998 WL 685623) (5th Cir. 1998), reh'g granted. Second, Judge Wisdom has now dissented. His dissent adopts an interpretation of Congress' Section Five powers that supports

CSB's petition. *Chavez,* ___ F.3d ___, (1998 WL 685623 at 13). ("Congress has authority to protect [property rights created by Congress under its Article I powers] by enacting legislation under Section 5.") That position is virtually identical to that adopted by the Federal Circuit. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1355 (Fed. Cir. 1998), petition for cert. pending, No. 98-531.

By their nature, property interests are not created by the Constitution. *Board of Regents v. Roth*, 408 U.S. 564, 577 (1972).

> Property interests, of course, are not created by the Constitution. Rather, they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law -- rules or understandings that secure certain benefits and that support claims of entitlement to those benefits.

This Court has recognized property rights created by state laws, e.g., *Goldberg v. Kelly*, 497 U.S. 254 (1997), and has also recognized that certain property rights, such as those of a business, exist as a matter of common law. *Duplex Co. v. Deering,* 254 U.S. 443, 465 (1920). It follows that Congress can protect those property rights by exercising it Section Five power to provide a remedy in the federal courts for deprivations caused by the states.

Florida Prepaid argues that the long line of cases recognizing that the Fourteenth Amendment protects business interests, if followed, would have compelled a different result in *Seminole Tribe* because a casino is a

business. Florida Prepaid Brief at 12-13. The statute invalidated in *Seminole Tribe*, however, bears no relationship to the statute here in issue. The State of Florida had passed no law seeking to regulate the gambling activities of Indian Tribes, nor had it acted in the commercial sphere in a way that violated any gambling rights of the Indian Tribes. The State was purely passive, and had not through legislative, executive, judicial, or any other means infringed the business property interests of the Seminole Tribe. As found by the Eleventh Circuit, the Act merely "establishes the process and standards by which gambling may be conducted on Indian lands," and thus "creates no liberty or property interests and cannot implicate the Fourteenth Amendment." *Seminole Tribe of Florida v. State of Florida*, 11 F.3d 1017, 1025 (11th Cir. 1994), aff'd, 517 U.S. 44 (1996).

This Court has held that there must be a proportionality and congruence between the means employed by Congress to achieve its legislative objective and the harm to be prevented. *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997). Congress' enactment of TRCA meets the requirement of proportionality and congruence. Congress has chosen to require the states to be answerable in the federal courts for unfair trade practices proscribed by § 43(a) of the Lanham Act, such as false advertising. Surely, in an era in which the states are entering ever wider areas affecting the commerce of this country, this does not constitute overreaching by Congress. A state is merely made subject to the same consequences as a private party, *i.e.* damages and injunctive relief. Florida Prepaid offers no sound reason for not subjecting the states to the same standards that govern private parties.

II. The Court of Appeals' Finding That Florida Prepaid's Proprietary Activities Are Not Within the *Parden* Doctrine Should be Reviewed by This Court.

The United States disagrees with the Court of Appeals' finding that Florida Prepaid's "marketing of its Prepaid tuition plan is a core state function that falls outside the legitimate scope of the *Parden* waiver doctrine." United States Brief at 8. Nevertheless, the United States argues that this issue "does not warrant" this Court's review. *Id.* at 9. The position is inexplicable. As stated in CSB's petition, the "Court of Appeals' interpretation would deprive the *Parden* doctrine of meaning since virtually any activity undertaken by the state could be interpreted as assisting some function deemed to be important to a state government." Petition at 26.

Florida Prepaid's opposition is premised primarily upon the argument that *Parden* has been overruled by implication by this Court's decision in *Seminole Tribe*. Florida Prepaid Brief at 19-27. Florida Prepaid characterizes the *Parden* doctrine as a "dead letter," relying heavily upon *Chavez v. Arte Publico Press*, 139 F.3d 504 (5th Cir. 1998) reh'g granted. Florida Prepaid Brief at 25. In his dissent, Judge Wisdom concludes that the *Parden* doctrine remains valid. *Chavez*, (1998 WL 685623 at 13).

Florida Prepaid also challenges the Court of Appeals' finding that TRCA satisfied the requirement of the *Parden* doctrine that the states be given notice. Florida Prepaid Brief at 18, 19 n.9. TRCA, however, had as its sole purpose making the states answerable for violations of the Lanham

Act. Thus, Florida Prepaid's position of a failure of notice lacks credibility.

In sum, the validity of the *Parden* doctrine and its proper scope are ripe for review and CSB's petition to review those issues should be granted.

Conclusion

For the above reasons and those stated in CSB's petition, a writ of certiorari to the Third Circuit should be issued.

Respectfully submitted,

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037-1350
(202) 457-6000

ARNOLD B. CALMANN
SAIBER SCHLESINGER
SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, N.J. 07102-5311
(973) 622-3333

Supreme Court, U.S.
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No. 98-149

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Supreme Court of the United States

OCTOBER TERM, 1998

COLLEGE SAVINGS BANK,

Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Writ of Certiorari to the United State Court of Appeals for the Third Circuit

JOINT APPENDIX

WILLIAM B. MALLIN
Counsel of Record
LEWIS F. GOULD, JR.
JOSEPH M. RAMIREZ
ECKERT SEAMANS CHERIN & MELLOTT, LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
(412) 566-6000

LOUIS F. HUBENER
ASSISTANT ATTORNEY GENERAL
Office of the Attorney General
The Capitol
Tallahassee. FL 32399-1050
(850) 414-3300

Counsel for Respondent

DAVID TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, NW
Washington, DC 20037
(202) 457-6000

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, NJ 07102-5311
(973) 622-3333

Counsel for Petitioners

PRESS OF BYRON S. ADAMS ✦ WASHINGTON, D.C. ✦ 1-800-347-8208

PETITION FOR CERTIORARI FILED JULY 17, 1998
CERTIORARI GRANTED JANUARY 8, 1999

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College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd., 948 F. Supp. 400 (D.N.J 1996) ..... Pet. App. B

U.S. DISTRICT COURT FOR THE DIST. OF NEW JERSEY

Docket as of May 7, 1997 9:35 am

Proceedings include all events. 12BH SCHEDO APPEAL

3:95cv4516 COLLEGE SAVINGS BANK v. FLORIDA PREPAID POST

8/25/95—1—COMPLAINT filed $120.00 RECEIPT #211359 (MS) [Entry date 09/01/95] [Edit date 09/08/95]

9/1/95—2—NOTICE of Allocation and Assignment filed. Magistrate Hughes (Trenton-Brown) (MS)

9/12/95—3—RETURN OF SERVICE executed as to FLORIDA PREPAID POST 8/30/95. Answer due on 9/19/95. (eh) [Entry date 09/14/95]

9/14/95—4—APPLICATION by FLORIDA PREPAID POST and Clerk's Order extending time to answer. Answer due 10/4/95 for FLORIDA PREPAID POST (CC)

10/2/95—5—NOTICE of change of firm by counsel for COLLEGE SAVINGS BANK (eh) [Entry date 10/05/95]

10/12/95—6—STIPULATION and ORDER, resetting answer due for 11/3/95 for FLORIDA PREPAID POST. (signed by Judge Garrett E. Brown, Jr.) (NM) (eh) [Entry date 10/13/95]

11/3/95—9—Notice of MOTION for WILLIAM B. MALLIN & LEWIS F. GOULD, JR. to appear pro hac vice by FLORIDA PREPAID POST, Motion hearing set for 10:00 12/4/95 on motion. (PO Subm) (eh) [Entry date 11/09/95]

11/8/95—7—Substitute attorney for FLORIDA PREPAID POST ; Terminated attorney ROBERT G. SHEPHERD; Added, ANNE E. HENDRICKS (eh) [Entry date 11/09/95]

11/8/95—8—ANSWER to Complaint and COUNTERCLAIM by FLORIDA PREPAID POST against COLLEGE SAVINGS BANK (eh) [Entry date 11/09/95]

11/22/95—11—APPLICATION by COLLEGE SAVINGS BANK and Clerk's Order extending time to answer dft's counterclaim to 12/12/95. (eh) [Entry date 12/04/95]

11/29/95—10—ORDER granting [9-1] motion for WILLIAM B. MALLIN & LEWIS F. GOULD, JR. to appear pro hac vice. (signed by Magistrate John J. Hughes) (NM) (eh) [Entry date 12/01/95]

12/5/95—12—Minute entry: Proceedings NOT recorded; Minutes of 12/5/95; ACTION GRANTED: [9-1] motion for WILLIAM B. MALLIN & LEWIS F. GOULD JR. to pro hac vice (By Magistrate John J. Hughes) (ms) [Entry date 12/07/95]

12/13/95—13—Notice of Intent to submit a Dispositive motion to dismiss counterclaim by COLLEGE SAVINGS BANK. (eh)

12/22/95—14—DEMAND for jury trial by FLORIDA PREPAID POST (eh) [Entry date 12/28/95]

1/11/96—-—-—Scheduling conference held before Magistrate John J. Hughes on 1/11/96. (eh) [Entry date 01/30/96]

1/24/96—15—ORDER, for DAVID C. TODD to appear pro hac vice for pltf. (signed by Magistrate John J. Hughes) (NM) (eh)

1/24/96—16—ORDER, for GARRET G. RASMUSSEN to appear pro hac vice for pltf. (signed by Magistrate John J. Hughes) (NM) (eh)

1/24/96—17—ORDER, for DEBORAH M. LODGE to appear pro hac vice for pltf. (signed by Magistrate John J. Hughes) (NM) (eh)

1/30/96—18—SCHEDULING ORDER setting Discovery cutoff 7/31/96; Joining of Parties & Amending of pleadings on 5/10/96; Status conference 2:00 3/6/96, 6/26/96 & 10/30/96; and setting schedule for service of certain reports. (signed by Magistrate John J. Hughes) (NM) (eh)

2/5/96—19—Copy of ORDER reassigning matter from Judge Brown to Judge Orlofsky and reallocating matter from Trenton to Camden. (signed by Chief Judge Anne E. Thompson) (NM) (eh) [Entry date 02/06/96]

2/9/96—20—Notice of MOTION to dismiss counterclaims by COLLEGE SAVINGS BANK, Motion hearing set for 9:30 3/15/96 on [20-1] motion . (Brief/PO Subm) (jf) [Entry date 02/15/96]

2/21/96—21—ORDER reassigning matter from Judge Orlofsky to Judge Brown and reallocating matter from Camden to Trenton. (Signed by Chief Judge Anne E. Thompson) (NM) (eh) [Entry date 03/01/96]

3/4/96—22—Minute entry: Proceedings recorded by ESR: CAROTHERS; Minutes of: 3/4/96; The following actions were taken under advisement: [20-1] motion to dismiss counterclaims. By Judge Garrett E. Brown, Jr. (eh) [Entry date 03/11/96]

3/22/96—23—MEMORANDUM OPINION. (signed by Judge Garrett E. Brown, Jr.) (NM) (eh)

3/22/96—24—ORDER granting [20-1] motion to dismiss Counterclaims I, II & III. (signed by Judge Garrett E. Brown, Jr.) (NM) (eh)

3/29/96—25—STIPULATION and PROTECTIVE ORDER, directing certain materials be filed as confidential. (signed by Mag. Judge John J. Hughes) (NM) (eh)

4/26/96—26—Notice of Intent to submit a Dispositive motion by FLORIDA PREPAID POST (MB) [Entry date 04/30/96]

5/3/96—27—Notice of MOTION to dismiss for lack of jurisdiction by FLORIDA PREPAID. Motion hearing set for 10:00 6/10/96 on [27-1] motion. (Brief/PO Subm) (PER CHAMBERS) (eh) [Entry date 05/06/96]

5/15/96—28—ORDER cancelling all case management deadlines; staying case pending resolution of motions to dismiss; and continuing protective order under certain conditions. (signed by Mag. Judge John J. Hughes) (NM) (ms) [Entry date 05/16/96]

5/17/96—29—DECLARATION of DEBORAH M. LODGE on behalf of COLLEGE SAVINGS BANK in opposition RE: [27-1] motion to dismiss for lack of jurisdiction. (eh) [Entry date 05/20/96]

5/20/96—30—TRANSCRIPT of pre-trial hearing taken on 3/4/96. (eh)

8/2/96—31—ORDER, adding USA as an Intervenor; and setting briefing schedule. (signed by Judge Garrett E. Brown, Jr.) (NM) (eh) [Entry date 08/05/96]

11/4/96—32—Minute entry: Proceedings recorded by Ct-Reporter: Carothers/ESR; Minutes of: 11//4/96; The following actions were taken, [27-1] motion to dismiss for lack of jurisdiction. DECISION RE-

SERVED. By Judge Garrett E. Brown, Jr. (CC) [Entry date 11/13/96]

12/16/96—33—MEMORANDUM OPINION. (signed by Judge Garrett E. Brown, Jr.) (NM) (eh)

12/16/96—34—ORDER granting [27-1] motion to dismiss for lack of jurisdiction; dismissing complaint in its entirety; and in CV94-5610: denying dft's motion to dismiss. (signed by Judge Garrett E. Brown, Jr.) (NM) (eh)

12/16/96———Case closed (eh)

1/27/97—35—NOTICE OF APPEAL filed at 9:15 AM by COLLEGE SAVINGS BANK Re: [34-1] order, [33-1] order . Fee Status: PAID $105.00 RECEIPT #230138. Copies of notice of appeal sent to USCA and Attorney(s): ARNOLD B. CALMANN, ROBERT G. SHEPHERD, ANNE E. HENDRICKS, W. SCOTT SIMPSON (MS) [Entry date 01/29/97]

2/5/97—36—NOTICE of Docketing ROA from USCA Re: [35-1] appeal USCA NUMBER: 97-5055 (MS) [Entry date 02/07/97]

2/11/97—37—NOTICE OF APPEAL filed at 9:25 AM by USA Re: [34-1] order, [33-1] order . Fee Status: waived. Copies of notice of appeal sent to USCA and Attorney(s): ARNOLD B. CALMANN, ROBERT G. SHEPHERD, ANNE E. HENDRICKS, W. SCOTT SIMPSON (MS) [Entry date 02/13/97]

2/19/97—38—Transcript Purchase Order RE: [35-1] appeal None requested. (MS) [entry date 02/20/97]

2/20/97———Record complete for purposes of appeal. (MS)

3/4/97—39—NOTICE of Docketing ROA from USCA Re: [37-1] appeal USCA NUMBER: 97-5086 (MS) [Entry date 03/07/97]

3/17/97—40—Transcript Purchase Order RE: [37-1] appeal None requested. (MS) [Entry date 03/24/97]

3/24/97———Record complete for purposes of appeal. (MS)

U.S. COURT OF APPEALS
FOR THE THIRD CIRCUIT

Docket as of February 2, 1999 8:51 am

Proceedings include all events. ARGUED ctc CLOSED

97-5055 COLLEGE SAVINGS BANK v.
FL PREPAID

1/31/97—CIVIL CASE DOCKETED. Notice filed by College Savings Bank. (ddw) [97-5055]

2/6/97—APPEARANCE from Attorney Anne E. Hendricks on behalf of Appellee FL Prepaid, filed. (ddw) [97-5055]

2/7/97—APPEARANCE from Attorney Joseph M. Ramirez and William B. Mallin on behalf of Appellee FL Prepaid, filed. (ddw) [97-5055]

2/10/97—APPEARANCE from Attorney David C. Todd on behalf of Appellant College Savings Bank, filed. (ddw) [97-5055]

2/10/97—DISCLOSURE STATEMENT on behalf of Appellant College Savings Bank, filed. (ddw) [97-5055]

2/10/97—INFORMATION STATEMENT on behalf of Appellant College Savings Bank, received. (ddw) [97-5055]

2/10/97—STATEMENT OF FACTS AND ISSUES on behalf of Appellant College Savings Bank, received. (ddw) [97-5055]

2/10/97—TRANSCRIPT PURCHASE ORDER (PART I), no proccedings in District Court. (ddw) [97-5055]

2/24/97—APPEARANCE from Attorney Michael E. Robinson and Mark B. Stern on behalf of Appellee USA, filed. (ddw) [97-5055]

3/13/97—APPEARANCE from Attorney Arnold B. Calmann on behalf of Appellant College Savings Bank, filed. (lac) [97-5055]

4/2/97—CERTIFIED LIST filed. (ddw) [97-5055]

4/2/97—BRIEFING NOTICE ISSUED. Appellant's brief and appendix due 5/12/97. **VACATED** per Clerk's order of 4/11/97. (ddw) [97-5055]

4/9/97—MOTION filed by appellant College Savings Bank in 97-5055 to consolidate Nos. 97-5055 and 97-5086 for briefing and disposition. Answer due 4/18/97. Certificate of Service dated 4/8/97. (ddw) [97-5055]

4/11/97—ORDER (Clerk) granting motion by appellant College Savings Bank to consolidate appeals for briefing and disposition. The appeals at 97-5055 and 97-5086 are consolidated for the purposes of disposition and filing a joint appendix. The briefing schedule in 97-5055 is vacated. A consolidated briefing schedule shall issue. The parties are encouraged to coordinate and join in briefs to avoid any unnecessary duplication. Appellee may file a single consolidated brief in response to appellant's brief(s) within 30 days from the date that the last appellant's brief is filed, filed. (ddw) [97-5055]

4/18/97—BRIEFING NOTICE ISSUED. Appellant's brief and appendix due 5/28/97 in 97-5055 and 97-5086. (ddw) [97-5055 97-5086]

5/28/97—Letter by appellant College Savings Bank treated as a motion for extension of time to file brief and appendix, with service, fiiled. (ddw) [97-5055]

5/28/97—BRIEF on behalf of appellant College Savings Bank, Pages: 41, Copies: 10, delivered by mail, filed. Certificate of service date 5/28/97. (ddw) [97-5055]

5/28/97—APPENDIX on behalf of Appellant College Savings Bank in 97-5055, Appellant USA in 97-5086, Copies: 4, Volumes: 1, Delivered by mail, filed. Certificate of service date 5/28/97. (ddw) [97-5055 97-5086]

6/2/97—ORDER (Clerk) granting motion by appellant USA for extension of time to file brief and appendix. In light of the fact that the above listed appeals are consolidated for the purposes of a consolidated briefing schedule, the filing of a joint appendix and for disposition, appellants' briefs and joint appendix in 97-5055 & 97-5086 shall be filed and served on or before 6/4/97. It is noted that appellant requests an extension of time for appellee. Such request may only be made by appellee and only after such time all appellants' briefs are filed and served, filed. (ddw) [97-5086]

6/2/97—ORDER (Clerk) denying as unnecessary the motion by appellant for extension of time to file brief and appendix as appellant's, College Savings Bank, brief was timely filed, filed. (ddw) [97-5055]

6/30/97—BRIEF on behalf of Appellee FL Prepaid in 97-5055/5086, Pages: 40, Copies: 10, delivered by mail, filed. Certificate of Service date 6/30/97. (tap) [97-5055 97-5086]

7/11/97—MOTION filed by Regents of Univ CA for leave to file brief as amicus curiae in support of appellee and for leave to file brief out of time. Answer due 7/21/97. Certificate of Service dated 7/10/97. (ddw) [97-5055 97-5086]

7/14/97—RESPONSE filed by Appellant College Savings Bank in opposition to motion by Regents of Univ CA for leave to file brief as amicus curiae and for leave to file brief out of time. Certificate of service dated 7/11/97. (ddw) [97-5055]

7/14/97—MOTION filed by Appellant College savings Bank for extension of time to file reply brief. Answer due 7/21/97. Certificate of Service dated 7/11/97. (ddw) [97-5055]

7/21/97—ORDER (Clerk) granting motion by appellant for extension of time to file reply brief. Appellant's reply brief shall be filed and served within 14 days from the date of the order either denying or granting proposed amicus leave to file an amicus brief out of time, filed. (ddw) [97-5055]

8/1/97—ORDER (Mansmann, Circuit Judge) granting motion by proposed amicus Regents of Univ CA for leave to file brief as amicus curiae and for leave to file brief out of time. The Clerk shall give the appellants an extension, if necessary to file their reply briefs, filed. C-2 (ddw) [97-5055 97-5086]

8/1/97—AMICUS BRIEF on behalf of Regents of Univ CA. Pages: 22, Delivered by mail, filed. Certificate of service date 7/10/97. (ddw) [97-5055 97-5086]

8/7/97—CALENDARED for Monday, October 20, 1997. (rr) [97-5055 97-5086]

8/14/97—APPEARANCE from Attorney Gerald P. Dodson on behalf of Amicus-appellee Regents of Univ CA, filed. (ddw) [97-5055]

8/14/97—DISCLOSURE STATEMENT on behalf of Amicus-appellee Regents of Univ CA, filed. (ddw) [97-5055 97-5086]

8/15/97—REPLY BRIEF on behalf of Appellant College Savings Bank, Copies: 10, Delivered by mail, filed. Certificate of service date 8/15/97. (ddw) [97-5055]

10/20/97—ARGUED 10/20/97 Panel: Mansmann, Greenberg and Alarcon, Circuit Judges. (rr) [97-5055 97-5086]

12/5/97—PUBLISHED OPINION (Mansmann, Greenberg, Authoring Judge, *Alarcon, Circuit Judges), filed. *United States Circuit Judge for the Ninth Circuit sitting by designation. (mmb) [97-5055 97-5086]

12/5/97—JUDGMENT: AFFIRMED, costs taxed against appellants, filed. (mmb) [97-5055 97-5086]

12/15/97—BILL OF COSTS by Appellee FL Prepaid. Certificate of service dated 12/10/97, filed. (clc) [97-5055]

1/15/98—MOTION filed by Appellant College Savings Bank and USA in 97-5055 and 97-5086 to extend time to file petition for rehearing en banc until 2/3/98. Answer due 1/23/98. Certificate of Service dated 1/13/98. (ctc) [97-5055 97-5086]

1/15/98—RESPONSE filed by Appellee FL Prepaid in 97-5055 and 97-5086 in opposition to motion to extend time to file petition for rehearing en banc. Certificate of service dated 1/14/98. (ctc) [97-5055 97-5086]

1/21/98—ORDER (Clerk) considering motion by Appellants and response by Appellee to extend time to file petition for rehearing en banc by appellant College Bank, and USA in 97-5055 and 97-5086. Any petition for rehearing shall be filed and served on or before February 3, 1998, filed. (ctc) [97-5055 97-5086]

2/3/98—PETITION by Appellant College Savings Bank in 97-5055 for rehearing in banc. Certificate of service dated 2/2/98, filed. (ctc) [97-5055 97-5086]

2/17/98—ORDER (Becker, Chief Judge, Sloviter, Stapleton, Mansmann, Greenberg, Authoring Judge, Scirica, Cowen, Nygaard, Alito, Roth, Lewis, McKee, Rendell, Alarcon*, Circuit Judges) denying petition for in banc rehearing by Appellant College Savings Bank. *Honoralbe Arthur L. Alarcon, Senior Judge of the United States Court of Appeals for the Ninth Circuit, sitting by designation. Judge Alarcon's vote is limited to the application before the original panel. (ctc) [97-5055 97-5086]

2/25/98—MANDATE ISSUED, filed. (97-5086) (ctc) [97-5055 97-5086]

2/25/98—RECORD released. (ctc) [97-5055]

5/15/98—U.S. Supreme Court letter dated 5/11/98 extending time to file petition for writ of certiorari until and including June 17, 1998, filed . (ctc) [97-5055 97-5086]

7/31/98—Supreme Court of U.S. notice filed advising petition for writ of certiorari filed in the Supreme Court on 7/17/98 at Supreme Ct. case number: 98-149. (ctc) [97-5055 97-5086]

1/19/99—U.S. Supreme Court order dated 1/8/99 at S.C. number: 98-149, granting petition for writ of certiorari in 97-5055 and 97-5086, filed. (ctc) [97-5055 97-5086]

CRUMMY, DEL DEO, DOLAN,
GRIFFINGER & VECCHIONE
A Professional Corporation
One Riverfront Plaza
Newark, New Jersey 07102
(201) 596-4500
AC 3245

PATTON BOGGS, L.L.P.
2550 M. Street, N.W.
Washington, D.C. 20037
(202) 457-6000
DT 3250

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

Civil Action No. 95-4516 (GEB)

COLLEGE SAVINGS BANK,

Plaintiff,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Defendant.

COMPLAINT

Plaintiff College Savings Bank, through its attorneys, for its Complaint against Florida Prepaid Post Secondary Education Expense Board (''Florida Prepaid''), relating to violations of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and New Jersey common law, avers as follows:

Nature of Claim

1. This action for false advertising and unfair competition arises under the trademark laws of the United States, 15 U.S.C. §§ 1051 *et seq.*, and the common law of unfair competition, and concerns material misrepresentations made in connection with the advertising and promotion of the Florida Prepaid College Program. Florida prepaid has claimed, specifically or by implication, that under its program college tuitions are guaranteed by the State of Florida when they are not; that the Internal Revenue Service (''IRS'') has ruled that the Florida Prepaid College Program qualifies for advantageous tax treatment when no such ruling has been made; that the Florida Prepaid College Program's investments are backed by the ''Full Faith and Credit'' of the United States when they are not; and Florida Prepaid has failed to disclose material information about the Florida Prepaid College Program.

Jurisdiction and Venue

2. This court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1131, 1137(a) and 1338(a), 15 U.S.C. § 1121 (a), and the doctrines of ancillary and pendent jurisdiction.

3. The remedies sought in this action are authorized by Rules 57 and 65 of the Federal Rules of Civil Procedure, the Declaratory Judgments Act, 28 U.S.C. §§ 2201 *et seq.*, and the trademark laws of the United States, 15 U.S.C. §§ 1051 *et seq*.

4. Venue is proper in this district under 28 U.S.C. § 1391 (b) and (c).

The Parties and Related Action

5. Plaintiff College Savings Bank is a New Jersey chartered savings bank, with its principal place of business at 5 Vaughn Drive, Princeton, New Jersey 08540.

6. Upon information and belief, Defendant Florida Prepaid is a body corporate of the State of Florida, with its principal place of business at 345 South Magnolia Drive, Tallahassee, Florida 32301, is transacting and doing business in the State of New Jersey, and is deemed to reside here.

7. There is already pending in this District a patent infringement lawsuit between the parties. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*. Civ. Action No. 94-5610 (GEB) (D.N.J.). In that action, Plaintiff Colleges Savings Bank is claiming that Florida Prepaid has infringed Plaintiff's U.S. Patent No. 4,722,055, and is seeking injunctive relief as well as trebled monetary damages for willful infringement.

Background

8. Since September 1987, College Savings Bank has engaged in the business of selling its CollegeSure® C.D., a deposit contract administered in accordance with a patented method to provide a return adequate to meet payouts for funding the uncertain cost of a college education at a future date.

9. Since September 1988, Florida Prepaid has been administering and promoting a tuition prepayment program (the ''Florida Prepaid College Program'' or the ''Program''), pursuant to which consumers are offered contracts administered in accordance with a method to provide a return adequate to meet payouts for funding the uncertain cost of a college education at a future date. Consumers can choose contracts for various tuition benefits, ranging from two years at a community college, to four years at a state university, and up to five years of dormitory expenses. Consumers can elect to make the contractual payments in a single lump sum or in installments. Upon information and

belief, since its inception, Florida Prepaid has sold over 327,000 such contracts, including sales to a number of residents of New Jersey.

10. The Florida Prepaid College Program is extensively advertised and promoted by means of brochures and other promotional materials, including press releases and other written materials distributed by Florida Prepaid.

11. Defendant Florida Prepaid currently competes with Plaintiff College Savings Bank in connection with the sale of contracts and savings vehicles designed to help consumers save for college educations. College Savings Bank's efforts to sell competing contracts have been impaired by false and misleading claims that Florida Prepaid has made in its promotional materials.

12. Upon information and belief, these false and misleading promotional materials were intended to, and have had the effect of, causing consumers to participate in the Florida Prepaid College Program who would not otherwise have done so, harming both the consumers and College Savings Bank.

COUNT 1

Defendant's Representations That Tuition is "Guaranteed by the State of Florida" Are False and Violate Section 43(a) of the Lanham Act.

13. Plaintiff repeats and realleges each and every allegation of Paragraphs 1 through 12 hereof as if said paragraphs were set forth in full herein.

14. Florida Prepaid's marketing materials have falsely represented that the State of Florida "guarantees" that the beneficiary of each contract purchased pursuant to the Florida Prepaid College Program will be entitled to have his or her full college tuition paid at a participating college or university. In fact, Florida's guarantee is limited only to

beneficiaries who are enrolled in or are within five years of starting college. For all others, Florida can cancel the contract at any time and is obligated only to return the money invested and interest calculated at a passbook rate.

15. Among the false and misleading statements that Florida Prepaid has made with respect to its claimed "guarantee" are the following unqualified representations:

a. "The state of Florida financially guarantees the Florida Prepaid College Program. This allows you to rest assured the contracted tuition fees, and optional dormitory fees, will be paid at the time your children are ready to enroll in college." (1994 Marketing Brochure, facing p. 1). *See* Exhibit 1 hereto (1994 Marketing Brochure).

b. "The program is financially guaranteed by the state of Florida, so you have peace of mind that your contracted tuition or optional dormitory fees will be paid at the time of your beneficiary's college enrollment, no matter what those fees will be." (1993 Marketing Brochure, facing p. 1). *See* Exhibit 2 hereto (relevant portions of the 1995 Marketing Brochure).

c. "The best part of the Florida Prepaid College Program is that tuition for a college education is financially guaranteed by the state of Florida." (1994 Marketing Brochure, p. 5). *See* Exhibit 1.

d. "The state of Florida financially guarantees payment of the contracted state tuition and dormitory fees at the time of college enrollment." (January 11, 1994 release entitled "Prepaid College Program Enrollment Period Ends Jan. 14"). *See* Exhibit 3 hereto (text of January 11, 1994 release).

16. The State of Florida's obligation is in fact limited to beneficiaries who are enrolled in, or are within five years of

enrollment in, a college or other secondary education institution. Contract purchasers for younger beneficiaries are entitled only to a refund of their payment, with interest at a passbook savings rate. Although the limited scope of the "guarantee" is disclosed in the fine print of the "Master Covenant" which the consumer receives only after filling out an application and paying a non-refundable application fee, that subsequent disclosure does not cure the misleading representations made in the marketing brochures and other promotional materials.

17. Florida Prepaid's misrepresentations with respect to Florida's guarantee are material, as Florida Prepaid is well aware. According to William Montjoy, the Executive Director of the Florida Prepaid College Program, "The guarantee is the prime reason we've had success and acceptability." J. Kenyon, "Banking on College", *The Tampa Tribune*, 11/6/94, at 1, 8.

18. Upon information and belief, the majority of beneficiaries of Florida Prepaid College Program do not fall within Florida's guarantee and are at risk of not being able to have their college tuitions paid under the Program.

19. Florida Prepaid's false and misleading statements regarding its "guarantee" constitute misrepresentations as to the nature, characteristics and/or qualities of Florida Prepaid's goods or services in connection with its commercial activities, all in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

20. Plaintiff has been, and will continue to be, severely and irreparably damaged due to Florida's Prepaid's conduct complained of herein.

COUNT II

Florida Prepaid's False Statements With Respect to the Tax Consequences of the Program Violate Section 43(a) of the Lanham Act.

21. Plaintiff repeats and realleges each and every allegation of Paragraphs 1 through 20 hereof as if said paragraphs were set forth in full herein.

22. Among the claims, specific or implied, used by Florida Prepaid to promote the Program is that the IRS has specifically ruled that any tax liability flowing from a Program contract is the liability of the student beneficiary, and that the liability will be deferred until the student receives the benefits under the contract, *i.e.*, when the student is enrolled in college. For example, the 1994 Marketing Brochure falsely states:

> Under 1988 IRS rulings, any tax liability is deferred until the student enters college. At that time, the difference between the amount paid in and the value of the benefits received is taxable to the student over his college years. . . . As with all tax rulings, this is subject to change based on future congressional legislation." (Questions and Answers About the Florida Prepaid College Program, 1994 Marketing Brochure, pp. 12-13, Exhibit 1 hereto).

23. In fact, the IRS has never issued a tax ruling on the Florida Prepaid College Program. Although in 1990, Florida Prepaid sought a letter ruling from the IRS that income earned by Florida Prepaid is exempt from tax (a ruling which has not yet been issued), Florida Prepaid has never sought a tax letter ruling on the tax consequences to individual taxpayers.

24. There is a substantial risk that the tax liability will fall on the purchase, not the beneficiary. Florida Prepaid has

never disclosed this material risk, or that fact that the purchaser generally is in a much higher tax bracket, in its marketing brochures or other promotional materials. Although Florida Prepaid discloses, in the fine print of the "Master Covenant", the possibility that the purchaser will be subject to tax, such subsequent disclosure does not cure the omissions in the marketing brochures and other promotional materials.

25. There is also a substantial risk that the purchaser or the beneficiary will have to pay annual taxes on imputed income. Florida Prepaid has failed to disclose this fact in its marketing brochures, or in any other material.

26. Despite substantial uncertainty about the tax consequences to consumers of the Florida Prepaid College Program, Florida Prepaid has failed even to advise potential purchasers to seek advice from their tax advisors.

27. Florida Prepaid's false and misleading statements regarding IRS rulings regarding the tax treatment of the program constitute misrepresentations as to the nature, characteristics and/or qualities of Florida Prepaid's goods or services in connection with its commercial activities, in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

28. Plaintiff has been, and will continue to be, severely and irreparably damaged due to Florida Prepaid's conduct complained of herein.

COUNT III

Florida Prepaid's Representations Regarding Investments Backed by the "Full Faith and Credit" of the United States Violate Section 43(a) of the Lanham Act.

29. Plaintiff repeats and realleges each and every allegation of Paragraphs 1 through 28 hereof as if said paragraphs were set forth in full herein.

30. Florida Prepaid has falsely represented the Program's assets are invested only in U.S. Government debt and are backed by the "Full Faith and Credit" of the Federal government with no risk of default. (1994 Annual Report, pp. 2, 8). *See* Exhibit 4 hereto (relevant portions of the 1994 Annual Report).

31. By means of the foregoing statement and other statements, Florida Prepaid has falsely implied that the Florida Prepaid College Program is free of credit risk.

32. Such representations are materially false and misleading. A significant amount of the assets of Florida Prepaid are invested in Resolution Funding Corporation Strips, which are not obligations of or backed by the "Full Faith and Credit" of the United States Government, nor are they obligations of the Resolution Trust Corporation. The investments made by Florida Prepaid are not free of credit risk.

33. The foregoing false and misleading statements constitute material misrepresentations as to the nature, characteristics and/or qualities of Florida Prepaid's goods or services in connection with its commercial activities, in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

34. Plaintiff has been, and will continue to be, severely and irreparably damaged due to Florida Prepaid's conduct complained of herein.

COUNT IV

Florida Prepaid's Failure to Disclose the Existence of Patent Infringement Lawsuit Constitutes a Violation of Section 43(a) of the Lanham Act.

35. Plaintiff repeats and realleges each and every allegation of Paragraphs 1 through 34 hereof as if said paragraphs were set forth in full herein.

36. On November 7, 1994, Plaintiff commenced an action against Defendant Florida Prepaid, claiming that Florida Prepaid has infringed Plaintiff's U.S. Patent No. 4,722,055. In that action, *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, Civ. Action No. 94-5610 (GEB) (D.N.J.), Plaintiff is seeking a permanent injunction prohibiting any further use of patented inventions that are vital to the current operations of Florida Prepaid, together with trebled monetary damages, for willful and deliberate patent infringement.

37. Pursuant to statute, each year Florida Prepaid must prepare an annual report "setting forth in appropriate detail an accounting of the fund and a description of the financial condition of the program at the close of each fiscal year." Fla. Stat. Ann. § 240.551(g). That statute also requires Florida Prepaid to make the annual report available to purchasers of advance payment contracts.

38. The 1995 Annual Report of Florida Prepaid, which was published on or after March 31, 1995—well after the date of the filing and service of the above-referenced patent infringement lawsuit against Florida Prepaid, fails to disclose the patent infringement litigation as a material pending or threatened litigation, or as a potentially material loss contingency, or even as an unasserted claim.

39. In view of the materially adverse impact that an unfavorable outcome in the patent infringement litigation could have on Florida Prepaid, the failure to disclose in the Annual Report the existence of the litigation and its possible impact on Florida Prepaid amounts to a false and misleading representation as to the nature, characteristics and/or qualities of Florida Prepaid's goods or services in connection with its commercial activities, in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).

40. Plaintiff has been and will continue to be, severely and irreparably damaged due to Florida's Prepaid's conduct complained of herein.

COUNT V

Florida Prepaid Has Violated The Common Law of Unfair Competition.

41. Plaintiff repeats and realleges each and every allegation of Paragraphs 1-40 hereof as if said paragraphs were set forth in full herein.

42. The misstatements and misrepresentations described above violate the New Jersey common law of unfair competition, to the damage and detriment of Plaintiff College Savings Bank.

WHEREFORE, Plaintiff College Savings Bank prays that the Court enter a judgment:

A. Preliminary and permanently enjoining Florida Prepaid and its directors, officers, employees, attorneys, agents and all persons in active concert or participation with any of them, from further misrepresenting the nature, characteristics and quality of the Program;

B. Declaring that Defendant has violated Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and has engaged in unfair competition under the common law.

C. Awarding to College Savings Bank damages and profits, pursuant to Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), and the common law;

D. Trebling the damages awarded to College Savings Bank, pursuant to Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a);

E. Awarding to College Savings Bank its costs and disbursements, including attorneys' fees; and

F. Awarding to College Savings Bank such other and further relief as this Court may deem warranted.

Date: August 25, 1995 Respectfully submitted,

CRUMMY, DEL DEO, DOLAN, GRIFFINGER & VECCHIONE

By: /s/ Arnold B. Calmann
Arnold B. Calmann

One Riverfront Plaza
Newark, New Jersey 07102
(201) 596-4500

Of Counsel:

David C. Todd
Garret G. Rasmussen
Deborah M. Lodge
PATTON BOGGS, L.L.P.
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

Anne E. Hendricks (AEH 1009)
Steven C. Benjamin (SCB 3111)
ECKERT SEAMANS CHERIN & MELLOTT
One Eves Drive
Suite 111
Marlton, New Jersey 08053
(609) 983-7033

Attorneys for Defendant
Florida Prepaid Postsecondary
Education Expense Board

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

CIVIL ACTION NO. 95-4516 (GEB)

COLLEGE SAVINGS BANK,

Plaintiff,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Defendant.

ANSWER, AFFIRMATIVE DEFENSES AND COUNTERCLAIM OF DEFENDANT FLORIDA PREPAID

Defendant, Florida Prepaid Postsecondary Education Expense Board (''Florida Prepaid''), answers the Complaint of Plaintiff, College Savings Bank and asserts its affirmative defenses and counterclaims as follows:

ANSWER

Nature of Claim

1. Denies. Florida Prepaid denies that it has made any false statements or any material misrepresentations in connection with the advertising and promotion of the Florida

Prepaid College Program. Florida Prepaid denies Plaintiff's characterization of statements which Florida Prepaid has made in connection with the advertisement and promotion of the Florida Prepaid College Program. To the extent that the allegations contained in this paragraph are conclusions of law, no response is required.

Jurisdiction and Venue

2. Denies. To the extent that the allegations contained in this paragraph state legal conclusions, no responsive pleading is required. Title 28 of the United States Code does not contain any sections "1131" or "1137(a)," and, therefore, Defendant Florida Prepaid denies that jurisdiction is appropriate under these sections. Assuming that Plaintiff intended to assert jurisdiction under 28 U.S.C. §§1131 and 1337(a), as well as 28 U.S.C. §1338(a) and 15 U.S.C. §1121(a), Defendant Florida Prepaid denies that jurisdiction is appropriate under these sections as no viable cause of action under these statutes has been asserted against it. Additionally, the doctrines of ancillary and pendent jurisdiction are inappropriate as Plaintiff has failed to assert any viable federal cause of action.

3. Denies. To the extent that the allegations contained in this paragraph state legal conclusions, no responsive pleading is required. Plaintiff is not entitled to the remedies of Rules 57 and 65 or 28 U.S.C. §§2201 *et seq.*, or 15 U.S.C. §1051 *et seq.*, as Plaintiff has failed to allege a viable cause of action against Defendant Florida Prepaid.

4. Denies. Defendant Florida Prepaid denies that venue is proper in this district under 28 U.S.C. §1391(b) or (c).

The Parties and Related Action

5. Denies. Defendant Florida Prepaid is without knowledge or information sufficient to form a belief as to the truth

of the allegations stated in this paragraph, and, therefore, the allegations are denied and strict proof is demanded at the time of trial.

6. Admits in part, denies in part. Defendant Florida Prepaid admits that it is an agency of the State of Florida pursuant to Section 240.551, Florida Statutes, having a place of business in Tallahassee, Florida. The remaining allegations in this paragraph are denied. To the extent that the allegations contained in this paragraph state legal conclusions, no responsive pleading is required.

7. Admits in part, denies in part. Defendant Florida Prepaid admits that there is a patent infringement suit pending, but denies that there is any merit to the claims which College Savings Bank makes in that action.

Background

8. Denies. Defendant Florida Prepaid is without knowledge or information sufficient to form a belief as to the truth of the allegations stated in this paragraph, and, therefore, the allegations are denied and strict proof is demanded at the time of trial.

9. Admits in part, denies in part. Defendant Florida Prepaid admits that since September 1988, it has been administering and promoting a tuition prepayment program (the "Florida Prepaid College Program"), pursuant to which it offers contracts to purchasers of a program that locks in certain costs of a child's (a child that is a resident of Florida) college education at a fixed price. Defendant Florida Prepaid admits that purchasers can choose contracts that offer (based on a specified number of credit hours): (a) four years at a state university; (b) two years at a community college; or, (c) two years at a community college plus two years at a state university. Additionally, purchasers may purchase dormitory plans which cover up to five years in a

dormitory. Defendant Florida Prepaid also admits that purchasers can elect to make payments in a single lump sum or in installments. Defendant Florida Prepaid admits that it has sold in excess of 327,000 accounts, including sales to a relatively small number of purchasers who are now residents of New Jersey for beneficiaries who are residents of Florida. The remaining allegations contained in this paragraph are denied.

10. Admits in part, denies in part. Defendant Florida Prepaid admits that the Florida Prepaid College Program is advertised and promoted by brochures and press releases which are distributed by Florida Prepaid, in the State of Florida. The remaining allegations contained in this paragraph are denied.

11. Denies. Florida Prepaid's advertisements primarily are directed to Florida residents, as only Florida residents, with limited exceptions, are eligible to be beneficiaries under the Florida Prepaid College Program. Defendant Florida Prepaid denies that College savings Bank's efforts to sell competing contracts have been impaired by any statements which it has made or has not made in its promotional materials. Defendant Florida Prepaid further denies that its promotional materials contain any false or misleading statements.

12. Denies. Defendant Florida Prepaid denies that its promotional materials contain any false or misleading statements, and, that the consumers and/or College Savings Bank has been harmed by any statements contained in its promotional materials.

COUNT I

13. Defendant Florida Prepaid incorporates by reference its answers to paragraphs 1 through 12 as if set forth at length herein.

14. Denies. Defendant Florida Prepaid denies that its marketing materials contain any false or misleading statements. To the contrary, the marketing materials accurately describe the Florida Prepaid College Program. Defendant Florida Prepaid further denies Plaintiff's characterization of the statements made in its marketing materials. The marketing materials are documents which speak for themselves.

15. Denies. Defendant Florida Prepaid denies that it has made any false or misleading statements with respect to the guarantee. The marketing materials, in total, accurately describe the Florida Prepaid College Program. Additionally, Defendant Florida Prepaid specifically denies that the statements quoted by Plaintiff in this paragraph, (a-d), are false, misleading, or "unqualified representations." The marketing materials are documents which speak for themselves.

16. Denies. The State of Florida's obligation is stated in paragraph 5.08 of the Master Covenant, a copy of which is attached hereto as Exhibit A. Defendant Florida Prepaid denies Plaintiff's characterization of this obligation. Additionally, Defendant Florida Prepaid denies that the Master Covenant is only available after a prospective purchaser completes an application and pays the application fee. As stated in the 1994 Marketing Brochure, which is attached to Plaintiff's Complaint as Exhibit 1, copies of the Master Covenant are available for review at any First Union National Bank. Defendant Florida Prepaid further denies that the description of the State of Florida's obligation contained in paragraph 5.08 of the Master Covenant is a "subsequent disclosure" which "does not cure the misleading representations made in the marketing brochures and other promotional materials." The statements in the marketing brochures and any other promotional materials are neither false nor mis-

leading as they accurately describe the Florida Prepaid College Program.

17. Denies. Defendant Florida Prepaid denies that it has made any false or misleading statements regarding the Florida Prepaid College Program. Defendant Florida Prepaid further denies that the statements referred to by Plaintiff are material misrepresentations. The "Banking on College" article which Plaintiff makes reference to is a document which speaks for itself.

18. Denies. Defendant Florida Prepaid denies Plaintiff's characterization of the guarantee and the obligations of the State of Florida. The statements made in the marketing material and the Master Covenant, including paragraph 5.08 of the Master Covenant, apply to all of the beneficiaries of the Florida Prepaid College Program.

19. Denies. To the extent that the allegations contained in this paragraph state legal conclusions, no responsive pleading is required. Defendant Florida Prepaid denies that it has made any false or misleading statements regarding the Florida Prepaid College Program, or that any statements which it has made constitute violations of Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a).

20. Denies. Defendant Florida Prepaid denies that Plaintiff has been or ever will be damaged by any of its actions or inactions.

COUNT II

21. Defendant Florida Prepaid incorporates by reference its answers to paragraphs 1 through 20 as if set forth at length herein.

22. Denies. Defendant Florida Prepaid denies Plaintiff's characterization of the statement which appears in the 1994 Marketing Brochure. The 1994 Marketing Brochure is a

document which speaks for itself. The statement quoted does not state that the tax ruling was issued on the Florida Prepaid College Program. Additionally, Defendant Florida Prepaid denies that the statement quoted is just an "example" of similar statements made by it. The statement quoted is the only statement of its kind that appears in any of the promotional materials distributed by Florida Prepaid.

23. Admits in part, denies in part. Defendant Florida Prepaid admits that the IRS has not issued a tax ruling on the Florida Prepaid College Program, and that it did request a ruling from the IRS. Defendant Florida Prepaid denies that it has ever represented that it received a ruling directly from the IRS. Defendant Florida Prepaid denies the remaining allegations in this paragraph.

24. Denies. Defendant Florida Prepaid is without knowledge or information sufficient to form a belief as to the allegation that, "[t]here is a substantial risk that the tax liability will fall on the purchaser, not the beneficiary." Therefore, this allegation is denied and strict proof is demanded at the time of trial. Defendant Florida Prepaid denies the remainder of the allegations in this paragraph. The Master Covenant referred to in this paragraph should be read in conjunction with the other promotional materials distributed by Florida Prepaid.

25. Denies. Defendant Florida Prepaid is without knowledge or information sufficient to form a belief as to the truth of Plaintiff's allegation that "[t]here is also a substantial risk that the purchaser or beneficiary will have to pay annual taxes on the imputed income." This allegation is therefore denied, and strict proof is demanded at the time of trial. Defendant Florida Prepaid further denies that it was obligated to disclose this alleged fact in its promotional materials.

26. Denies. Defendant Florida Prepaid denies that it was under any obligation to advise potential purchasers to seek advice from their tax advisors.

27. Denies. Defendant Florida Prepaid denies that it has made any false or misleading statements regarding IRS rulings regarding the tax treatment of the Florida Prepaid College Program. Defendant Florida Prepaid further denies that it has made any statements which violate Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a).

28. Denies. Defendant Florida Prepaid denies that Plaintiff has been or ever will be damaged by any of its actions or inactions.

COUNT III

29. Defendant Florida Prepaid incorporates by reference its answers to paragraphs 1 through 28 as if set forth at length herein.

30. Denies. Defendant Florida Prepaid denies that it has falsely represented how the assets are invested and whether there is any risk of default. The 1994 Annual Report, portions of which are attached to Plaintiff's Complaint as Exhibit 4, is a document which speaks for itself. (A complete copy of the 1994 Annual Report is attached hereto as Exhibit B).

31. Denies. Defendant Florida Prepaid denies that it has falsely implied, with any statements, that the Florida Prepaid College Program is free of credit risk.

32. Denies. Defendant Florida Prepaid denies that it has made any false or misleading representations. Some of the assets are invested in Resolution Funding Corporation Bonds which are each collateralized by a United States Treasury Bond. The United States treasury Bonds which back each of

the Resolution Funding Corporation Bonds are backed by the "Full Faith and Credit" of the United States Government.

33. Denies. Defendant Florida Prepaid denies that it has made any false or misleading statements which constitute violations of Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a).

34. Denies. Defendant Florida Prepaid denies that Plaintiff has been or ever will be damaged by any of its actions or inactions.

COUNT IV

35. Defendant Florida Prepaid incorporates by reference its answers to paragraphs 1 through 34 as if set forth at length herein.

36. Admits in part, denies in part. Defendant Florida Prepaid admits that Plaintiff commenced a patent infringement action against it in November, 1994. Defendant Florida Prepaid denies Plaintiff's characterization of what is "vital to the current operations of Florida Prepaid" and how that may be effected by the unwarranted allegations of patent infringement.

37. Denies. The allegations in this paragraph state legal conclusions to which no response is required.

38. Admits in part, denies in part. Defendant Florida Prepaid admits that the 1995 Annual Report does not make reference to the patent infringement lawsuit. Defendant Florida Prepaid denies that it was obligated to disclose the existence of the patent infringement lawsuit in the 1995 Annual Report. Additionally, although the 1995 Annual Report was published on or after March 31, 1995, the financial information contained in the report does not cover the time period during which Florida Prepaid was served with

the complaint. Therefore, Defendant Florida Prepaid denies the remainder of the allegations in this paragraph.

39. Denies. Defendant Florida Prepaid denies the allegations contained in this paragraph. For the reasons stated in its answer to paragraph 38, Defendant Florida Prepaid could not have disclosed the existence of the patent infringement litigation in the 1995 Annual Report. Defendant Florida Prepaid also denies that it was obligated to disclose the existence of the patent infringement lawsuit in the 1995 Annual Report. Defendant Florida Prepaid further denies that it has made any false or misleading statements or any statements which constitute violations of Section 43(a) of the Lanham Act. 15 U.S.C. §1125(a).

40. Denies. Defendant Florida Prepaid denies that Plaintiff has been or ever will be damaged by any of its actions or inactions.

COUNT V

41. Defendant Florida Prepaid incorporates by reference its answers to paragraphs 1 through 40 as if set forth at length herein.

42. Denies. Defendant Florida Prepaid denies that it has made any misstatements or misrepresentations or any statements that violate the New Jersey common law of unfair competition. Defendant Florida Prepaid further denies that Plaintiff has been or ever will be damaged by any of its actions or inactions.

WHEREFORE, Defendant Florida Prepaid Postsecondary Education Expense Board demands judgment in its favor and against Plaintiff College Savings Bank on all counts of the Complaint, together with attorneys' fees and costs, and any such further relief as the Court deems just and proper.

AFFIRMATIVE DEFENSES

1. Plaintiff's Complaint fails to state a claim against Florida Prepaid upon which relief may be granted.

2. Plaintiff's alleged damages were caused, in whole or in part, by its own actions or inactions.

3. Plaintiff's claims are barred by the doctrine of estoppel.

4. Plaintiff's claims are barred by the doctrine of waiver.

5. Plaintiff's claims are barred by the doctrine of laches.

6. Plaintiff's claims are barred by the doctrine of unclean hands.

7. At all times herein, Defendant Florida Prepaid acted appropriately and accurately represented the Florida Prepaid College Program.

8. Plaintiff's Complaint fails to state a claim under Section 43(a) of the Lanham act. 15 U.S.C. §1125(a), because none of the statements made by Florida Prepaid, upon which Plaintiff relies, are literally false.

9. All of the statements made by Florida Prepaid in its marketing materials and in the Master Covenant accurately describe the Florida Prepaid College Program and the obligations of the State of Florida. The Master Covenant should be read in conjunction with the other promotional materials.

10. Plaintiff's Complaint fails to state a claim under Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a), because none of the statements made by Florida Prepaid, upon which Plaintiff relies, are misleading.

11. Plaintiff's Complaint fails to state a claim under Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a), because none of the statements made by Florida Prepaid, upon which

Plaintiff relies, have deceived, or have a tendency to deceive a substantial portion of the intended audience.

12. Plaintiff's Complaint fails to state a claim under Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a), because none of the statements made by Florida Prepaid, upon which Plaintiff relies, are material misrepresentations because they have not and cannot influence the purchasing decisions of the consumer.

13. According to Plaintiff's Complaint, once purchasers have the Master Covenant, they are fully informed regarding the Florida Prepaid College Program and the obligations of the State of Florida. Purchasers have the Master Covenant before they make their first payment into the program. Therefore, according to Plaintiff's allegations, at the time the first payment is made, the consumer is fully informed. Therefore, the purchasing decision of the consumer has not been influenced by any allegedly false or misleading statements made by Florida Prepaid, and, therefore, Plaintiff's Complaint fails to state a claim under §43(a) of the Lanham Act, 15 U.S.C. §1125(a).

14. Plaintiff's Complaint fails to state a claim under Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a), because none of the statements made by Florida Prepaid, upon which Plaintiff relies, caused or will cause any injury to Plaintiff, including, but not limited to, declining sales or loss of good will.

15. The number of contracts which Florida Prepaid has sold to New Jersey residents is de minimis. Florida Prepaid has sold over 327,000 accounts, which include only approximately 200 sold to New Jersey residents.

16. The Florida Prepaid College Program is one which the State of Florida considers to be an essential government operation to assist its citizens to access higher education. It

provides a great benefit to children who are residents of the State of Florida.

17. Any impact which the Florida Prepaid College Program has had on College Savings Bank is de minimis.

18. The potential harm which College Savings Bank may inflict on the Florida Prepaid College Program as a result of this lawsuit, and any injunction which Plaintiff may seek, greatly outweighs any alleged harm which College Savings Bank allegedly suffer as a result of the few contracts which Florida Prepaid has sold to New Jersey residents.

19. In its "Information Kit," Plaintiff makes a number of representations similar to those statements of Florida Prepaid which it claims are false or misleading.

20. Plaintiff claims that its CollegeSure® Certificate of Deposit (CD) is "The Guaranteed Way To Save For College®."

21. Plaintiff claims that its CD is "the only investment indexed to college costs and one hundred percent guaranteed to pay tuition, fees, room and board — even if those costs skyrocket."

22. Plaintiff claims that its CD is a "risk-free way to help families meet the rising cost of college."

23. Plaintiff claims that its CD is "the only guaranteed, risk-free way to save for college."

24. Plaintiff claims that "[w]hatever percentage of college costs you prepay now is guaranteed to be at least the same percentage at maturity, no matter how high college costs rise."

25. Plaintiff claims that "[t]he CollegeSure CD provides peace of mind no other investment can offer. Because it is guaranteed to meet college costs, you can rest assured your child's education funding is a certainty."

26. Plaintiff claims that it is "one of the safest banks in the United States."

27. Plaintiff claims that "[t]he combination of FDIC insurance, the Bank's high Tier 1 capital-to-total-assets and risk-based capital ratios as well as the Bank's conservative investment policy ensures the safety of your deposits."

28. The representations which Plaintiff makes in its Information Kit, including those stated in paragraphs 21 through 28 above, imply that other prepaid college programs, including the Florida Prepaid college Program are inferior to the CollegeSure® CD.

29. Because of the representations which Plaintiff makes in its Information Kit, including those stated in paragraphs 21 through 28 above, Plaintiff brings its claims with unclean hands and is estopped and/or has waived its right to assert such claims.

30. In an advertisement that is included in Plaintiff's Information Kit and which Plaintiff placed in the November 1995 issue of *Worth Magazine*, the following statement is made:

> Unlike [state] pre-paid plans (which we *don't* recommend), if Junior gets a scholarship or doesn't want to go to college when the time comes, you get *all* your money back *plus* all the interest. It's yours to do with as you please; no strings attached.

31. This advertisement misrepresents the Florida Prepaid College Program. Under the Florida Prepaid College Program, if a child receives a scholarship, and if the scholarship covers the same benefits as the prepaid contract, the purchaser is entitled to a refund in the amount of either the amount paid in plus 5 percent interest, compounded annually, or the value of Florida public tuition, for each semester covered by the scholarship, whichever is less. (*See* 1994

Marketing Brochure attached to Plaintiff's Complaint as Exhibit 1, page 15). Additionally, a contract may be transferred to a brother, sister, half brother, half sister, stepbrother or stepsister of the qualified beneficiary. (*See* Exhibit 1 to Plaintiff's Complaint, page 14).

COUNTERCLAIM

Parties

1. Florida Prepaid is an agency of the State of Florida pursuant to Section 240.551, Florida Statutes, with its principal place of business located at Suite 210, 1801 Hermitage Boulevard, Tallahassee, Florida 32308.

2. College Savings Bank is a New Jersey chartered savings bank, with its principal place of business located at 5 Vaughn Drive, Princeton, New Jersey 08540.

Jurisdiction and Venue

3. Jurisdiction of this counterclaim is based upon 28 U.S.C. §1332, as the matter in controversy exceeds the sum or value of $50,000.00 and is between citizens of different states.

4. Venue is proper is this Court pursuant to 28 U.S.C. §1391.

Background

5. Florida Prepaid incorporates by reference its answer to Plaintiff's Complaint and the statements made in its affirmative defenses as if set forth at length herein.

6. Since 1988 Florida Prepaid has been administering and promoting a tuition prepayment program (the "Florida Prepaid College Program"). pursuant to which it offers contracts to purchasers of a program that locks in certain costs a child's education at a fixed price.

7. Purchasers can choose contracts, based on a specific number of credit hours, that offer four years at a state university, two years at a community college or two years at a community college plus two years at a state university. Additionally, purchasers may buy dormitory plans which cover up to five years in a dormitory. Purchasers can elect to make payments in a single lump sum or in installments.

8. Florida Prepaid has been very successful in selling contracts for the Florida Prepaid College Program. to date, it has sold in excess of 327,000 contracts. The contracts are sold primarily to Florida residents because, with limited exceptions, only Florida residents are qualified beneficiaries under the program.

9. The Florida Prepaid College Program provides a great benefit to children who are residents of the State of Florida. The State of Florida considers the Florida Prepaid College Program to be an essential government operation to assist its citizens gain access to higher education.

10. Florida Prepaid promotes the Florida Prepaid College Program through its marketing brochures and other forms of advertisement.

11. All of the statements made by Florida Prepaid in its marketing materials accurately describe the Florida Prepaid College Program and the obligations of the State of Florida with respect to the program.

12. On or about September 13, 1995, shortly after the instant action was filed, an article appeared in the *Miami Daily Business Review*, entitled "Prepaid College Plan Faces New Suit From Rival." A copy of the article is attached hereto as Exhibit C.

13. The article describes the lawsuit and the statements which Florida Prepaid makes in its marketing materials which College Savings Bank alleges are false or misleading.

14. Peter Roberts ("Roberts"), President and Chief Financial Officer of College Savings Bank is quoted in the article. Roberts comments on the statements made in Florida Prepaid's marketing materials by stating:

> At best those claims are half-truths, and at worst they're outright lies.

(*See* Exhibit C).

15. This statement by Roberts, acting in his corporate capacity as President and Chief Executive Officer of College savings Bank, is false, malicious and has and will continue to cause Florida Prepaid injury to its business and its reputation.

COUNT I - PRODUCT DISPARAGEMENT

16. Florida Prepaid incorporates by reference the allegations contained in paragraphs 1 through 15 above as if set forth at length herein.

17. The statement made by Roberts, for and on behalf of College Savings Bank, which was published in the *Miami Daily Business Review* on or about September 13, 1995 (the "statement made by College Savings Bank"), is a false statement which disparages the quality of the product of Florida Prepaid.

18. The statement made by College Savings Bank is derogatory to the quality of the contracts sold by Florida Prepaid, derogatory to the Florida Prepaid College Program, and derogatory to the business in general of Florida Prepaid.

19. The statement made by College Savings Bank was calculated to prevent potential purchasers from purchasing contracts from Florida Prepaid.

20. The statement made by College Savings Bank was calculated to interfere with Florida Prepaid's relationship

with potential and existing purchasers to the detriment of Florida Prepaid.

21. Neither Roberts nor College Savings Bank possess any privilege which entitled them to make this false statement about Florida Prepaid and/or the Florida Prepaid College Program.

22. The statement made by College Savings bank has and will continue to cause Florida Prepaid injury to its business and reputation.

WHEREFORE, Florida Prepaid Postsecondary Education Expense Board demands judgment in its favor and against College Savings Bank for compensatory damages, punitive damages, costs of suit, attorneys' fees, and such further relief as the Court deems just and proper.

COUNT II - TRADE LIBEL

23. Florida Prepaid incorporates by reference the allegations contained in paragraphs 1 through 22 above as if set forth at length herein.

24. The statement made by College Savings Bank, which was published in the *Miami Daily Business Review* on or about September 13, 1995, is a false statement.

25. The statement made by College Savings Bank constitutes malicious interference with Florida Prepaid's business.

26. The statement made by College Savings Bank was made with malice and with the intent to interfere with Florida Prepaid's relationship with potential and existing purchasers of its contracts.

27. The statement made by College Savings Bank has interfered with Florida Prepaid's relationship with potential and existing purchasers.

28. Neither Roberts nor College Savings Bank possess any privilege which entitled them to make this false statement about Florida Prepaid and/or the Florida Prepaid College Program.

29. The statement made by College Savings Bank has and will continue to cause Florida Prepaid injury to its business and reputation.

WHEREFORE, Florida Prepaid Postsecondary Education Expense Board demands judgment in its favor and against College Savings Bank for compensatory damages, punitive damages, costs of suit, attorneys' fees, and such further relief as the Court deems just and proper.

COUNT III - DEFAMATION

30. Florida Prepaid incorporates by reference the allegations contained in paragraphs 1 through 29 above as if set forth at length herein.

31. The statement made by College Savings Bank, which was published in the *Miami Daily Business Review* on or about September 13, 1995, is a false statement.

32. The statement made by College Savings Bank was made with malice and with the intent to damage the reputation of Florida Prepaid and the Florida Prepaid College Program.

33. The statement made by College Savings Bank has damaged the reputation of Florida Prepaid and the Florida Prepaid College Program

34. Neither Roberts nor College Savings Bank possess any privilege which entitled them to make this false statement about Florida Prepaid and/or the Florida Prepaid College Program.

35. The statement made by College Savings Bank has and will continue to cause Florida Prepaid injury to its business and reputation.

WHEREFORE, Florida Prepaid Postsecondary Education Expense Board demands judgment in its favor and against College Savings Bank for compensatory damages, punitive damages, costs of suit, attorneys' fees, and such further relief as the Court deems just and proper.

ECKERT SEAMANS CHERIN & MELLOTT

/s/ Anne E. Hendricks

Anne E. Hendricks (AEH 1009)
Steven C. Benjamin (SCB 3111)
One Eves Drive, Suite 111
Marlton, New Jersey 08053
(609) 983-7033

TITLE XVI EDUCATION
CHAPTER 240 POSTSECONDARY EDUCATION
PART V SPECIFIC PROGRAMS AND INSTITUTIONS
FLA. STAT. § 240.551 (1996)

240.551 Florida Prepaid Postsecondary Education Expense Program.

(1) The Legislature recognizes that educational opportunity at the postsecondary level is a critical state interest. It further recognizes that educational opportunity is best ensured through the provision of postsecondary institutions that are geographically and financially accessible. Accordingly, it is the intent of the Legislature that a program be established through which many of the costs associated with postsecondary attendance may be paid in advance and fixed at a guaranteed level for the duration of undergraduate enrollment. It is similarly the intent of the Legislature to provide a program that fosters timely financial planning for postsecondary attendance and to encourage employer participation in such planning through program contributions on behalf of employees and the dependents of employees.

(2) As used in this section:

(a) "Advance payment contract" means a contract entered into by the board and a purchaser pursuant to this section.

(b) "Board" means the Prepaid Postsecondary Education Expense Board.

(c) "Fund" means the Prepaid Postsecondary Education Expense Trust Fund.

(d) "Purchaser" means a person who makes or is obligated to make advance registration or dormitory residence payments in accordance with an advance payment contract.

(e) "Qualified beneficiary" means:

1. A resident of this state at the time a purchaser enters into an advance payment contract on behalf of the resident;

2. A nonresident who is the child of a noncustodial parent who is a resident of this state at the time that such parent enters into an advance payment contract on behalf of the child; or

3. For purposes of advance payment contracts entered into pursuant to paragraph (5) (j), a graduate of an accredited high school in this state who is a resident of this state at the time he or she is designated to receive the benefits of the advance payment contract.

(f) "State postsecondary institution" means any community college identified in § 240.3031 or university identified in § 240.2011.

(g) "Program" means the Florida Prepaid Postsecondary Education Expense Program.

(h) "Registration fee" means matriculation fee, financial aid fee, building fee, and Capital Improvement Trust Fund fee.

(3) There is created a Florida Prepaid Postsecondary Education Expense Program to provide a medium through which the cost of registration and dormitory residence may be paid in advance of enrollment in a state postsecondary institution at a rate lower than the projected corresponding

cost at the time of actual enrollment. Such payments shall be combined and invested in a manner that yields, at a minimum, sufficient interest to generate the difference between the prepaid amount and the cost of registration and dormitory residence at the time of actual enrollment. Students who enroll in a state postsecondary institution pursuant to this section shall be charged no fees in excess of the terms delineated in the advance payment contract.

(4) There is created within the State Board of Administration the Prepaid Postsecondary Education Expense Trust Fund. The fund shall consist of state appropriations, moneys acquired from other governmental or private sources, and moneys remitted in accordance with advance payment contracts. All funds deposited into the trust fund may be invested pursuant to § 215.47; however, such investment shall not be mandatory. Dividends, interest, and gains accruing to the trust fund shall increase the total funds available for the program. Notwithstanding the provisions of chapter 717, funds associated with contracts terminated pursuant to paragraph (6) (d) and canceled contracts for which no refunds have been claimed shall increase the total funds available for the program. However, the board shall establish procedures for notifying purchasers who subsequently cancel their contracts of any unclaimed refund and shall establish a time period after which no refund may be claimed by a purchaser who canceled a contract. Any balance contained within the fund at the end of a fiscal year shall remain therein and shall be available for carrying out the purposes of the program. In the event that dividends, interest, and gains exceeds the amount necessary for program administration and disbursements, the board may designate an additional percentage of the fund to serve as a contingency fund. Moneys contained within the fund shall be exempt from the investment requirements of § 18.10. Any funds of a

direct-support organization created pursuant to paragraph (5) (j) shall be exempt from the provisions of this paragraph.

(5) The Florida Prepaid Postsecondary Education Expense Program shall be administered by the Prepaid Postsecondary Education Expense Board as an agency of the state. The Prepaid Postsecondary Education Expense Board is hereby created as a body corporate with all the powers of a body corporate for the purposes delineated in this section. For the purposes of § 6, Art. IV of the State Constitution, the board shall be assigned to and administratively housed within the State Board of Administration, but it shall independently exercise the powers and duties specified in this section. The board shall consist of seven members to be composed of the Insurance Commissioner and Treasurer, the Comptroller, the Chancellor of the Board of Regents, the Executive Director of the State Board of Community Colleges, and three members appointed by the Governor and subject to confirmation by the Senate. Each member appointed by the Governor shall possess knowledge, skill, and experience in the areas of accounting, actuary, risk management, or investment management. Each member of the board not appointed by the Governor may name a designee to serve the board on behalf of the member; however, any designee so named shall meet the qualifications required of gubernatorial appointees to the board. Members appointed by the Governor shall serve terms of 3 years except that, in making the initial appointments, the Governor shall appoint one member to serve for 1 year, one member to serve for 2 years, and one member to serve for 3 years. Any person appointed to fill a vacancy on the board shall be appointed in a like manner and shall serve for only the unexpired term. Any member shall be eligible for reappointment and shall serve until a successor qualifies. Members of the board shall serve without compensation but shall be reimbursed for per diem and travel in accordance with § 112.061. Each member

of the board shall file a full and public disclosure of his or her financial interests pursuant to § 8, Art. II of the State Constitution and corresponding statute.

(a) The Governor shall appoint a member of the board to serve as the initial chair of the board. Thereafter, the board shall elect a chair annually. The board shall annually elect a board member to serve as vice chair and shall designate a secretary-treasurer who need not be a member of the board. The secretary-treasurer shall keep a record of the proceedings of the board and shall be the custodian of all printed material filed with or by the board and of its official seal. Notwithstanding the existence of vacancies on the board, a majority of the members shall constitute a quorum. The board shall take no official action in the absence of a quorum. The board shall meet, at a minimum, on a quarterly basis at the call of the chair.

(b) The board shall appoint an executive director to serve as the chief administrative and operational officer of the board and to perform other duties assigned to him or her by the board.

(c) The board shall have the powers necessary or proper to carry out the provisions of this section, including, but not limited to, the power to:

1. Adopt an official seal and rules.

2. Sue and be sued.

3. Make and execute contracts and other necessary instruments.

4. Establish agreements or other transactions with federal, state, and local agencies, including state universities and community colleges.

5. Invest funds not required for immediate disbursement.

6. Appear in its own behalf before boards, commissions, or other governmental agencies.

7. Hold, buy, and sell any instruments, obligations, securities, and property determined appropriate by the board.

8. Require a reasonable length of state residence for qualified beneficiaries.

9. Restrict the number of participants in the community college plan, university plan, and dormitory residence plan, respectively. However, any person denied participation solely on the basis of such restriction shall be granted priority for participation during the succeeding year.

10. Segregate contributions and payments to the fund into various accounts and funds.

11. Contract for necessary goods and services, employ necessary personnel, and engage the services of private consultants, actuaries, managers, legal counsel, and auditors for administrative or technical assistance.

12. Solicit and accept gifts, grants, loans, and other aids from any source or participate in any other way in any government program to carry out the purposes of this section.

13. Require and collect administrative fees and charges in connection with any transaction and impose reasonable penalties, including default, for delinquent payments or for entering into an advance payment contract on a fraudulent basis.

14. Procure insurance against any loss in connection with the property, assets, and activities of the fund or the board.

15. Impose reasonable time limits on use of the tuition benefits provided by the program. However, any such limitation shall be specified within the advance payment contract.

16. Delineate the terms and conditions under which payments may be withdrawn from the fund and impose reasonable fees and charges for such withdrawal. Such terms and conditions shall be specified within the advance payment contract.

17. Provide for the receipt of contributions in lump sums or installment payments.

18. Establish other policies, procedures, and criteria to implement and administer the provisions of this section.

19. Require that purchasers of advance payment contracts verify, under oath, any requests for contract conversions, substitutions, transfers, cancellations, refund requests, or contract changes of any nature. Verification shall be accomplished as authorized and provided for in § 92.525(1)(a).

(d) The board shall administer the fund in a manner that is sufficiently actuarially sound to defray the obligations of the program. The board shall annually evaluate or cause to be evaluated the actuarial soundness of the fund. If the board perceives a need for additional assets in order to preserve actuarial soundness, the board may adjust the terms of subsequent advance payment contracts to ensure such soundness.

(e) The board, acting with the approval of the State Board of Administration, shall establish a comprehensive investment plan for the purposes of this section. The comprehensive investment plan shall specify the investment

policies to be utilized by the board in its administration of the fund. The board may place assets of the fund in savings accounts or use the same to purchase fixed or variable life insurance or annuity contracts, securities, evidence of indebtedness, or other investment products pursuant to the comprehensive investment plan and in such proportions as may be designated or approved under that plan. Such insurance, annuity, savings, or investment products shall be underwritten and offered in compliance with the applicable federal and state laws, regulations, and rules by persons who are duly authorized by applicable federal and state authorities. Within the comprehensive investment plan, the board may authorize investment vehicles, or products incident thereto, as may be available or offered by qualified companies or persons.

(f) The board may delegate responsibility for administration of the comprehensive investment plan required in paragraph (e) to a person the board determines to be qualified. Such person shall be compensated by the board. Directly or through such person, the board may contract with a private corporation or institution to provide such services as may be a part of the comprehensive investment plan or as may be deemed necessary or proper by the board or such person, including, but not limited to, providing consolidated billing, individual and collective recordkeeping and accountings, and asset purchase, control, and safekeeping.

(g) The board shall annually prepare or cause to be prepared a report setting forth in appropriate detail an accounting of the fund and a description of the financial condition of the program at the close of each fiscal year. Such report shall be submitted to the President of the Senate, the Speaker of the House of Representatives, and members of the State Board of Education on or before March 31 each year. In

addition, the board shall make the report available to purchasers of advance payment contracts. The board shall provide to the Board of Regents and the State Board of Community Colleges by March 31 each year complete advance payment contract sales information including projected postsecondary enrollments of qualified beneficiaries. The accounts of the fund shall be subject to annual audits by the Auditor General or his or her designee.

(h) The board shall solicit answers to applicable ruling requests from the Internal Revenue Service regarding the tax status of fees paid pursuant to an advance payment contract to the purchaser or qualified beneficiary and from the Securities and Exchange Commission regarding the application of federal securities laws to the trust. The board shall make the status of such requests known before entering into an advance payment contract.

(i) The board shall solicit proposals for the marketing of the Florida Prepaid Postsecondary Education Expense Program pursuant to § 287.057. The entity designated pursuant to this paragraph shall serve as a centralized marketing agent for the program and shall be solely responsible for the marketing of the program. Any materials produced for the purpose of marketing the program shall be submitted to the board for review. No such materials shall be made available to the public before the materials are approved by the board. Any educational institution may distribute marketing materials produced for the program; however, all such materials shall have been approved by the board prior to distribution. Neither the state nor the board shall be liable for misrepresentation of the program by a marketing agent.

(j) The board may establish a direct-support organization which is:

1. A Florida corporation, not for profit, incorporated under the provisions of chapter 617 and approved by the Secretary of State.

2. Organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the program.

3. An organization which the board, after review, has certified to be operating in a manner consistent with the goals of the program and in the best interests of the state. Unless so certified, the organization may not use the name of the program.

4. Subject to an annual postaudit by an independent certified public accountant in accordance with rules promulgated by the board. The annual audit shall be submitted to the Department of Insurance and the Auditor General for review. The Department of Insurance and Auditor General shall have the authority to require and receive from the organization or its independent auditor any detail or supplemental data relative to the operation of the organization. The identity of donors who desire to remain anonymous shall be confidential and exempt from the provisions of§ 119.07(1) and§ 24(a), Art. I of the State Constitution, and such anonymity shall be maintained in the auditor's report. Information received by the organization that is otherwise confidential or exempt by law shall retain such status. Any sensitive, personal information regarding contract beneficiaries, including their identities, is exempt from the provisions of§ 119.07(1) and§ 24(a), Art. I of the State Constitution.

The chair of the board and the executive director shall be directors of the direct-support organization and shall jointly

name three other individuals to serve as directors of the organization.

(k) The board may endorse insurance coverage written exclusively for the purpose of protecting advance payment contracts, and the purchasers or beneficiaries thereof, which may be issued in the form of a group life policy and which is exempt from the provisions of part V of chapter 627.

(6) (a) The board shall construct advance payment contracts for registration and advance payment contracts for dormitory residence in accordance with the provisions of this section. Advance payment contracts constructed for the purposes of this section shall be exempt from the provisions of the Florida Insurance Code. The board may request assistance from the Department of Legal Affairs in the development of the advance payment contracts. The contents of both such contracts shall include, but not be limited to, the following:

1. The amount of the payment or payments and the number of payments required from a purchaser on behalf of a qualified beneficiary.

2. The terms and conditions under which purchasers shall remit payments, including, but not limited to, the date or dates upon which each payment shall be due.

3. Provisions for late payment charges and for default.

4. Provisions for penalty fees for withdrawals from the fund.

5. Except for an advance payment contract entered into pursuant to paragraph (5) (j), the name and date of birth of the qualified beneficiary on whose behalf the contract is

drawn and the terms and conditions under which another person may be substituted as the qualified beneficiary.

6. The name of any person who may terminate the contract. The terms of the contract shall specify whether the contract may be terminated by the purchaser, the qualified beneficiary, a specific designated person, or any combination of these persons.

7. The terms and conditions under which a contract may be terminated, the name of the person entitled to any refund due as a result of termination of the contract pursuant to such terms and conditions, and the amount of refund, if any, due to the person so named.

8. The time limitations, if any, within which the qualified beneficiary must claim his or her benefits through the program.

9. Other terms and conditions deemed by the board to be necessary or proper.

(b) In addition to the provisions of paragraph (a), an advance payment contract for registration shall include, but not be limited to, the following:

1. The number of semester credit hours contracted by the purchaser.

2. The state postsecondary system toward which the contracted credit hours will be applied.

3. The assumption of a contractual obligation by the board to the qualified beneficiary to provide for a specified number of semester credit hours of undergraduate instruction at a state postsecondary institution, not to exceed the average number of credit hours required for the conference of the

degree that corresponds to the plan purchased on behalf of the qualified beneficiary.

(c) In addition to the provisions of paragraph (a), an advance payment contract for dormitory residence shall include, but not be limited to, the following:

1. The number of semesters of dormitory residence contracted by the purchaser.

2. The assumption of a contractual obligation by the board to the qualified beneficiary to provide for a specified number of semesters of dormitory residence at a state university, not to exceed the maximum number of semesters of full-time enrollment required for the conference of a baccalaureate degree.

(d) An advance payment contract may provide that contracts which have not been terminated or the benefits exercised within a specified period of time shall be considered terminated. Time expended by a qualified beneficiary as an active duty member of any of the armed services of the United States shall be added to the period of time specified pursuant to this paragraph. No purchaser or qualified beneficiary whose advance payment contract is terminated pursuant to this paragraph shall be entitled to a refund. The board shall retain any moneys paid by the purchaser for an advance payment contract that has been terminated in accordance with this paragraph. Such moneys retained by the board are exempt from chapter 717, and such retained moneys must be used by the board to further the purposes of this section.

(e) 1. No refund provided pursuant to subparagraph (a) 7. shall exceed the amount paid into the fund by the purchaser. In the event that an advance payment contract is converted from a university to a community college registration plan, the refund amount shall be reduced by the

amount transferred to a community college on behalf of the qualified beneficiary. However, refunds may exceed the amount paid into the fund in the following circumstances:

a. If the beneficiary is awarded a scholarship, the terms of which cover the benefits included in the advance payment contracts, moneys paid for the purchase of the advance payment contracts shall be returned to the purchaser in semester installments coinciding with the matriculation by the beneficiary in amounts of either the original purchase price plus 5 percent compounded interest, or the current rates at state postsecondary institutions, whichever is less.

b. In the event of the death or total disability of the beneficiary, moneys paid for the purchase of advance payment contracts shall be returned to the purchaser together with 5 percent compounded interest, or the current rates at state postsecondary institutions, whichever is less.

c. If an advance payment contract is converted from a university plan to a community college plan or a community college plus university plan, or is converted from a community college plus university plan to a community college plan, the amount refunded shall be the value of the original advance payment contract minus the value of the contract after the conversion.

2. No refund shall be authorized through an advance payment contract for any school year partially attended but not completed. For purposes of this section, a school year partially attended but not completed shall mean any one semester whereby the student is still enrolled at the conclusion of the official drop-add period, but withdraws before the end of such semester. If a beneficiary does not complete a community college plan or university plan for reasons other than specified in subparagraph 1., the purchaser shall receive

a refund of the amount paid into the fund for the remaining unattended years of the advance payment contract pursuant to rules promulgated by the board.

(f) Information that identifies the purchasers or beneficiaries of any plan promulgated under this section and their advance payment account activities is exempt from the provisions of§ 119.07(1). However, the board may authorize the program's records administrator to release such information to a community college, college, or university in which a beneficiary may enroll or is enrolled. Community colleges, colleges, and universities shall maintain such information as exempt from the provisions of § 119.07(1).

(7) At a minimum, the board shall make advance payment contracts available for three independent plans to be known as the community college plan, the university plan, and the dormitory residence plan, respectively.

(a) Through the community college plan, the advance payment contract shall provide prepaid registration fees for a specified number of undergraduate semester credit hours not to exceed the average number of hours required for the conference of an associate degree. The cost of participation in the community college plan shall be based primarily on the average current and projected registration fees within the State Community College System and the number of years expected to elapse between the purchase of the plan on behalf of a qualified beneficiary and the exercise of the benefits provided in the plan by such beneficiary. Qualified beneficiaries shall bear the cost of any laboratory fees associated with enrollment in specific courses. Each qualified beneficiary shall be classified as a resident for tuition purposes pursuant to § 240.1201 regardless of his or her actual legal residence.

(b) Through the university plan, the advance payment contract shall provide prepaid registration fees for a specified number of undergraduate semester credit hours not to exceed the average number of hours required for the conference of a baccalaureate degree. The cost of participation in the university plan shall be based primarily on the current and projected registration fees within the State University System and the number of years expected to elapse between the purchase of the plan on behalf of a qualified beneficiary and the exercise of the benefits provided in the plan by such beneficiary. Qualified beneficiaries shall bear the cost of any laboratory fees associated with enrollment in specific courses. In the event that a qualified beneficiary fails to be admitted to a state university or chooses to attend a community college, the qualified beneficiary may convert the average number of semester credit hours required for the conference of an associate degree from a university plan to a community college plan and may retain the remaining semester credit hours in the university plan or may request a refund for prepaid credit hours in excess of the average number of semester credit hours required for the conference of an associate degree pursuant to subparagraph (6) (a) 7. Each qualified beneficiary shall be classified as a resident for tuition purposes pursuant to § 240.1201 regardless of his or her actual legal residence.

(c) Through the dormitory residence plan, the advance payment contract shall provide prepaid housing fees for a maximum of 10 semesters of full-time undergraduate enrollment in a state university. Dormitory residence plans are optional and may be purchased only in conjunction with a university plan. Dormitory residence plans shall be purchased in increments of 2 semesters. The cost of participation in the dormitory residence plan shall be based primarily on the average current and projected housing fees

within the State University System and the number of years expected to elapse between the purchase of the plan on behalf of a qualified beneficiary and the exercise of the benefits provided in the plan by such beneficiary. Qualified beneficiaries shall bear the cost of any additional elective charges such as laundry service or long-distance telephone service. Each state university may specify the residence halls or other university-held residences eligible for inclusion in the plan. In addition, any state university may request immediate termination of a dormitory residence contract based on a violation or multiple violations of rules of the residence hall or other university-held residences. Qualified beneficiaries shall have the highest priority in the assignment of housing within university residence halls. In the event that sufficient housing is not available for all qualified beneficiaries, the board shall refund the purchaser or qualified beneficiary an amount equal to the fees charged for dormitory residence during that semester. If a qualified beneficiary fails to be admitted to a state university or chooses to attend a community college that operates one or more dormitories or residency opportunities, or has one or more dormitories or residency opportunities operated by the community college direct-support organization, the qualified beneficiary may transfer or cause to have transferred to the community college, or community college direct-support organization, the fees associated with dormitory residence. Dormitory fees transferred to the community college or community college direct-support organization may not exceed the maximum fees charged for state university dormitory residence for the purposes of this section, or the fees charged for community college or community college direct-support organization dormitories or residency opportunities, whichever is less.

(d) A qualified beneficiary may apply a community college plan, university plan, or dormitory residence plan

toward any eligible independent college or university. An independent college or university which is located and chartered in Florida, is not for profit, is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools or the Accrediting Commission of the Association of Independent Colleges and Schools, and which confers degrees as defined in§ 246.021 shall be eligible for such application. The board shall transfer or cause to have transferred to the eligible independent college or university designated by the qualified beneficiary an amount not to exceed the redemption value of the advance payment contract within a state postsecondary institution. In the event that the cost of registration or housing fees at the independent college or university is less than the corresponding fees at a state postsecondary institution, the amount transferred shall not exceed the actual cost of registration or housing fees. No transfer authorized pursuant to this paragraph shall exceed the number of semester credit hours or semesters of dormitory residence contracted on behalf of a qualified beneficiary.

(e) A qualified beneficiary may apply the benefits of an advance payment contract toward an eligible out-of-state college or university. An out-of-state college or university which is not for profit, is accredited by a regional accrediting association, and which confers baccalaureate degrees shall be eligible for such application. The board shall transfer, or cause to have transferred, an amount not to exceed the redemption value of the advance payment contract or the original purchase price plus 5 percent compounded interest, whichever is less, after assessment of a reasonable transfer fee. In the event that the cost of registration or housing fees charged the qualified beneficiary at the eligible out-of-state college or university is less than this calculated amount, the amount transferred shall not exceed the actual cost of registration or housing fees. Any remaining amount shall be

transferred in subsequent semesters until the transfer value is depleted. No transfer authorized pursuant to this paragraph shall exceed the number of semester credit hours or semesters of dormitory residence contracted on behalf of a qualified beneficiary.

(8) The board shall solicit proposals for the operation of the Florida Prepaid Postsecondary Education Expense Program pursuant to § 287.057, through which the board shall contract for the services of a records administrator, a trustee services firm, and one or more product providers.

(a) The records administrator shall be the entity designated by the board to conduct the daily operations of the program on behalf of the board. The goals of the board in selecting a records administrator shall be to provide all purchasers with the most secure, well-diversified, and beneficially administered postsecondary education expense plan possible, to allow all qualified firms interested in providing such services equal consideration, and to provide such services to the state at no cost and to the purchasers at the lowest cost possible. Evaluations of proposals submitted pursuant to this paragraph shall include, but not be limited to, the following criteria:

1. Fees and other costs charged to purchasers that affect account values or operational costs related to the program.

2. Past experience in records administration and current ability to provide timely and accurate service in the areas of records administration, audit and reconciliation, plan communication, participant service, and complaint resolution.

3. Sufficient staff and computer capability for the scope and level of service expected by the board. 4. Financial

history and current financial strength and capital adequacy to provide administrative services required by the board.

(b) The trustee services firm shall be the entity designated by the board to select and supervise investment programs on behalf of the board. The goals of the board in selecting a trustee services firm shall be to obtain the highest standards of professional trustee services, to allow all qualified firms interested in providing such services equal consideration, and to provide such services to the state at no cost and to the purchasers at the lowest cost possible. The trustee services firm shall agree to meet the obligations of the board to qualified beneficiaries if moneys in the fund fail to offset the obligations of the board as a result of imprudent selection or supervision of investment programs by such firm. Evaluations of proposals submitted pursuant to this paragraph shall include, but not be limited to, the following criteria:

1. Adequacy of trustee services for supervision and management of the program, including current operations and staff organization and commitment of management to the proposal.

2. Capability to execute program responsibilities within time and regulatory constraints.

3. Past experience in trustee services and current ability to maintain regular and continuous interactions with the board, records administrator, and product provider.

4. The minimum purchaser participation assumed within the proposal and any additional requirements of purchasers.

5. Adequacy of technical assistance and services proposed for staff.

6. Adequacy of a management system for evaluating and improving overall trustee services to the program.

7. Adequacy of facilities, equipment, and electronic data processing services.

8. Detailed projections of administrative costs, including the amount and type of insurance coverage, and detailed projections of total costs.

(c) 1. The product providers shall be the entities designated by the board to develop investment portfolios on behalf of the board to achieve the purposes of this section. Product providers shall be limited to authorized insurers as defined in § 624.09, banks as defined in § 658.12, associations as defined in § 665.012, authorized Securities and Exchange Commission investment advisers, and investment companies as defined in the Investment Company Act of 1940. All product providers shall have their principal place of business and corporate charter located and registered in the United States. In addition, each product provider shall agree to meet the obligations of the board to qualified beneficiaries if moneys in the fund fail to offset the obligations of the board as a result of imprudent investing by such provider. Each authorized insurer shall evidence superior performance overall on an acceptable level of surety in meeting its obligations to its policyholders and other contractual obligations. Only qualified public depositories approved by the State Insurance Commissioner and Treasurer shall be eligible for board consideration. Each investment company shall provide investment plans as specified within the request for proposals.

2. The goals of the board in selecting a product provider company shall be to provide all purchasers with the most secure, well-diversified, and beneficially administered postsecondary education expense plan possible, to allow all

qualified firms interested in providing such services equal consideration, and to provide such services to the state at no cost and to the purchasers at the lowest cost possible. Evaluations of proposals submitted pursuant to this paragraph shall include, but not be limited to, the following criteria:

a. Fees and other costs charged to purchasers that affect account values or operational costs related to the program.

b. Past and current investment performance, including investment and interest rate history, guaranteed minimum rates of interest, consistency of investment performance, and any terms and conditions under which moneys are held.

c. Past experience and ability to provide timely and accurate service in the areas of records administration, benefit payments, investment management, and complaint resolution.

d. Financial history and current financial strength and capital adequacy to provide products, including operating procedures and other methods of protecting program assets.

(9) The state shall agree to meet the obligations of the board to qualified beneficiaries if moneys in the fund fail to offset the obligations of the board. The Legislature shall appropriate to the Prepaid Postsecondary Education Expense Trust Fund the amount necessary to meet the obligations of the board to qualified beneficiaries.

(10) The assets of the fund shall be maintained, invested, and expended solely for the purposes of this section and shall not be loaned, transferred, or otherwise used by the state for any purpose other than the purposes of this section. This subsection shall not be construed to prohibit the board from investing in, by purchase or otherwise, bonds, notes, or other

obligations of the state or an agency or instrumentality of the state. Unless otherwise specified by the board, assets of the fund shall be expended in the following order of priority:

(a) To make payments to state postsecondary institutions on behalf of qualified beneficiaries.

(b) To make refunds upon termination of advance payment contracts.

(c) To pay the costs of program administration and operations.

(11) Moneys paid into or out of the fund by or on behalf of a purchaser or qualified beneficiary of an advance payment contract made under this section, which contract has not been terminated, are exempt, as provided by § 222.22, from all claims of creditors of the purchaser or the beneficiary.

(12) The state or any state agency, county, municipality, or other political subdivision may, by contract or collective bargaining agreement, agree with any employee to remit payments toward advance payment contracts through payroll deductions made by the appropriate officer or officers of the state, state agency, county, municipality, or political subdivision. Such payments shall be held and administered in accordance with this section.

(13) Nothing in this section shall be construed as a promise or guarantee that a qualified beneficiary will be admitted to a state postsecondary institution or to a particular state postsecondary institution, will be allowed to continue enrollment at a state postsecondary institution after admission, or will be graduated from a state postsecondary institution.

(14) In the event that the state determines the program to be financially infeasible, the state may discontinue the provision of the program. Any qualified beneficiary who has

been accepted by and is enrolled or is within 5 years of enrollment in an eligible independent college or university or state postsecondary institution shall be entitled to exercise the complete benefits for which he or she has contracted. All other contract holders shall receive a refund, pursuant to subparagraph (6) (a) 7., of the amount paid in and an additional amount in the nature of interest at a rate that corresponds, at a minimum, to the prevailing interest rates for savings accounts provided by banks and savings and loan associations.

History:§ 1, ch. 87-132;§ 17, ch. 88-185; s. 2, ch. 88-303;§ 3, ch. 88-313;§ 1, ch. 89-316;§ 1, ch. 90-130;§ 32, ch. 90-268;§ 82, ch. 90-360;§ 18, ch. 91-55;§ 5, ch. 91-429;§ 1, ch. 92-124;§ 1, ch. 93-191;§ 1, ch. 94-200;§ 1, ch. 95-129;§ 831, ch. 95-148;§ 36, ch. 95-392;§ 1, ch. 96-262;§ 103, ch. 96-406.

(6)

Supreme Court, U.S.
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No. 98-149

In The

Supreme Court of the United States

October Term 1998

COLLEGE SAVINGS BANK,
Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR PETITIONER

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

Attorneys for Petitioner

52pp

QUESTIONS PRESENTED

1. Did the United States Congress have the power under Section 5 of the Fourteenth Amendment to enact that portion of the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) (the "TRCA"), which abrogated the states' Eleventh Amendment immunity for unfair competition suits alleging that a state engaged in false and misleading advertising of its product in violation of Section 43(a) of the Lanham Act ?

2. Did Florida Prepaid Postsecondary Education Expense Board waive its Eleventh Amendment immunity under the constructive consent doctrine set forth by this Court in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184 (1964), by continuing to engage in the interstate marketing of its products after Congress' enactment of the TRCA by which Congress made it unmistakably clear that the states would be subject to suit in federal court for cases arising from violations of Section 43(a) of the Lanham Act?

PARTIES TO THE PROCEEDING

In addition to the parties named in the caption, the United States of America was a party before the Court of Appeals.

Petitioner College Savings Bank has no parent company. It has one wholly-owned subsidiary, College Savings Trust, Helena, Montana.

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STATEMENT OF JURISDICTION

The judgment of the United States Court of Appeals for the Third Circuit ("Court of Appeals") was entered on December 5, 1997. The Court of Appeals denied a timely petition for rehearing on February 17, 1998. Pet. App. C. College Savings Bank's application for an extension of time to file a Petition for a Writ of Certiorari was granted by Justice Souter on April 21, 1998, extending the time to and including July 17, 1998. The Petition for Writ of Certiorari was filed on July 17, 1998. This Court granted the petition by order dated January 8, 1999.

The jurisdiction of the Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Constitutional and statutory provisions involved in this case are set out at pages 2-5 of College Savings Bank's Petition for a Writ of Certiorari.

STATEMENT OF THE CASE

A. THE LANHAM ACT

This case involves College Savings Bank's ("CSB") contention that the Florida Prepaid Postsecondary Expense Board ("Florida Prepaid"), has engaged in false advertising in violation of Section 43(a) of the Lanham Act. Section 43(a) provides in part that persons subject to the Act shall be liable for damages caused by a competitor's misrepresentation of "the nature, characteristics, [or] qualities" of that person's goods or services. 15 U.S.C. § 1125(a)(1). The pertinent portions of Section 43(a) are:

> (1) Any person who...uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any . . . false or misleading description of fact, or false or misleading representation of fact, which—
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> * * *
>
> **(B)** in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, . . . of his . . . goods, services or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

The congressional purpose in enacting Section 43(a) is explained in Section 45. 15 U.S.C. § 1127. As here pertinent the section states:

> The intent of this chapter is to regulate commerce within the control of Congress... to protect persons engaged in such commerce against unfair competition . . . .

15 U.S.C. §1127.

In enacting the Lanham Act, Congress recognized that "[t]here is no essential difference between trade-mark infringement and what is loosely called unfair competition. Unfair competition is the genus of which trade-mark infringement is one of the species . . .. All trade-mark cases and cases of unfair competition involve the same legal wrong." S. Rep. No. 1333, 79th Cong. 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275.

B. THE TRADEMARK REMEDY CLARIFICATION ACT

In 1992, Congress adopted the Trademark Remedy Clarification Act, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"). The congressional purpose was to ensure that the states would be held liable for violations of the Act in the same manner as any other entity. Accordingly, the amendments included a specific abrogation of the Eleventh Amendment immunity of the states:

> Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal Court by any person, . . . for any violation under this chapter.

15 U.S.C. § 1122(a).

As a part of the TRCA, Congress adopted other conforming amendments to the Lanham Act to ensure that the states would thereafter be held responsible for violations of the Act. Those included amending Section 43(a), 15 U.S.C. § 1125(a), to expand the definition of "person" to include the states:

> As used in this subsection the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

15 U.S.C. § 1125(a)(2).

Section 1127 of Title 15, which sets forth the construction, definitions and intent of the chapter also was amended to provide that the term "person" includes any state or instrumentality of a state. 15 U.S.C. § 1127.

The legislative history of the TRCA reinforces the fact that the sole purpose of the Act was to demonstrate Congress' intent that "States and State entities" would not be immune from suits under the Lanham Act. S. Rep. 102-280, 102d Cong., 1st Sess. at 2 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087. Congress enacted the TRCA to satisfy this Court's requirement that the congressional intent to permit the states to be brought into federal court be made explicit in the language of the statute itself. *See* S. Rep. 102-280, *Id.* at 4-6, discussing the relationship of the TRCA to *Atascadero State Hosp. v. Scanlin,* 473 U.S. 334 (1985) (pertaining to the requirements

that must be met by Congress in exercising its powers under Section 5 of the Fourteenth Amendment), and *Welch v. Texas Dep't of Highways & Pub. Transp.,* 483 U.S. 468 (1987) (pertaining to the requirements that must be met by Congress to apply *Parden v. Terminal Ry. of Ala. Docks Dep't,* 377 U.S. 184 (1964)).

The Senate Report states that the statutory language was deliberately adopted to provide "the necessary clarity to ensure that Congress intended to override the Eleventh Amendment as an appropriate way to enforce the provisions of the Fourteenth Amendment." S. Rep. 102-280, *Id.* at 4, 5 (footnote omitted). The Report also states that the provisions of the TRCA are "justified under . . . the Fourteenth Amendment." *Id.* at 8. The report concludes: "Based on previous court decisions, S. 758 [TRCA] and S. 759 will constitutionally abrogate State Sovereign Immunity, providing a uniform system of protection." *Id.* at 11.

C. THE CONSTITUTIONAL ISSUES

Article I, Section 8, Clause 3 of the Constitution provides in relevant part that the Congress shall have power:

> To regulate Commerce with foreign Nations, and among the several States . . .

The Fourteenth Amendment provides in relevant part that no State shall:

> Section 1 [D]eprive any person of life, liberty or property, without due process of law . . . .

* * *

Section 5 The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

The Eleventh Amendment provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by citizens of another State or by citizens or subjects of any Foreign State.

There are two constitutional issues involved in this case. First, petitioner CSB maintains that the Court of Appeals erred by concluding that Congress lacked the power under Section 5 of the Fourteenth Amendment to enact the TRCA making the states subject to suit for false advertising under Section 43(a) of the Lanham Act.

Second, the Court of Appeals erred in concluding that the activities of Florida Prepaid are beyond the reach of the *Parden* doctrine. CSB maintains the Court of Appeals applied the wrong test. The Court of Appeals has confused the difference between education, as an important state function, and the entry by the states into the commercial financial arena by offering investment vehicles to assist private citizens in meeting the costs of a college education. Under the broad doctrine enunciated by the Court of Appeals, virtually any activity that could be undertaken by a state would be beyond the reach of the *Parden* doctrine.

D. THE PARTIES

CSB is a New Jersey chartered, FDIC-insured bank that has been engaged since 1987 in selling "CollegeSure® CDs," a deposit contract administered in accordance with a patented

methodology that provides funds sufficient to meet future and unknown college expenses. Respondent Florida Prepaid is a "body corporate" of the State of Florida, which engages in the interstate marketing of a similar investment product in competition with CSB, *i.e.*, a program to meet future costs of a college education. Fla. Stat. Section 240.551(5), J.A. at 8. The Florida Prepaid program, which has been offered since 1988, is advertised and promoted nationally by brochures, press releases and other means.

E. THE PROCEEDINGS BELOW

CSB brought an action against Florida Prepaid on November 7, 1994, Civ. No. 94-5610 (GEB), in the United States District Court for the District of New Jersey ("the patent case"), contending that Florida Prepaid had infringed CSB's patent. CSB filed a second complaint, the one giving rise to this petition, against Florida Prepaid on August 25, 1995, alleging that Florida Prepaid's interstate marketing of its program was in violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), and the common law tort of unfair competition, Civ. No. 95-4516 (GEB) ("the Lanham Act Case"). CSB contends that Florida Prepaid falsely represented that the State of Florida guarantees that all beneficiaries will have an amount necessary to pay for the cost of a college education; that tax liability on the contract is deferred until the benefits of the contract, including proceeds for dormitory expenses, are disbursed upon enrollment in college; that Florida Prepaid's investment portfolio is backed by the "full faith and credit" of the United States; and that Florida Prepaid failed to disclose the existence of CSB's patent infringement case.[1]

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[1] Florida Prepaid answered CSB's Lanham Act complaint and filed a counterclaim on November 8, 1995, that challenged the reach of the First Amendment by contending that certain statements made by Mr.

Subsequent to this Court's decision in *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996), Florida Prepaid filed motions to dismiss both the Patent Act and Lanham Act cases contending that the decision deprived the court of jurisdiction under the Eleventh Amendment. Florida Prepaid's motion to dismiss CSB's Lanham Act case was granted and the case dismissed by the district court's order of December 13, 1996. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd.*, 948 F. Supp. 400 (D.N.J. 1996).[2]

Peter Roberts, President of CSB, represented actionable defamation, product disparagement, and trade libel. CSB filed a motion to dismiss the counterclaim, contending that a governmental entity cannot maintain libel or defamation actions because they are inconsistent with the free speech guarantees of the First Amendment. That motion was granted by the District Court on March 22, 1996. The dismissal was not appealed and the district court decision on that motion is not involved in this petition. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd.*, 919 F. Supp. 756 (D.N.J. 1996).

[2] The district court, in the same decision giving rise to this petition, denied Florida Prepaid's motion to dismiss the Patent Act case. That denial was based upon the district court's finding that Section 5 of the Fourteenth Amendment empowered the Congress to enact the Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230, which amended the Patent Act to permit states to be brought into federal court to defend against patent infringement claims. 35 U.S.C. §§ 271(h), 296. This was based upon the district court's finding that a patent is a property interest that Congress can protect by exercising its abrogation power under Section 5 of the Fourteenth Amendment. The holding was appealed by Florida Prepaid to the United States Court of Appeals for the Federal Circuit. The Federal Circuit affirmed the district court in a decision issued on June 30, 1998. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd.*, 148 F.3d 1343 (Fed. Cir. 1998), *cert. granted*, 67 U.S.L.W. 3433 (1999). This Court granted Florida Prepaid's petition for a writ of certiorari on January 8, 1999, Docket No. 98-531.

A timely appeal was filed with the United States Court of Appeals for the Third Circuit. The Court of Appeals affirmed the district court's judgment. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd.*, 131 F.3d 353 (3rd Cir. 1997), *cert. granted*, 67 U.S.L.W. 3433 (1999).

SUMMARY OF ARGUMENT

Article I, Section 8 of the Constitution provides Congress with a wide array of powers including the power to "regulate commerce . . . among the several states . . . ." In *Seminole Tribe*, this Court held that Article I does not provide Congress with the power to abrogate the immunity of the states provided for by the Eleventh Amendment. This holding was principally based upon the fact that the Eleventh Amendment was adopted subsequent to Article I and therefore served to limit the power of Congress under Article I.

In *Seminole Tribe*, this Court also recognized that Congress does have power under Section 5 of the Fourteenth Amendment to enforce its provisions by appropriate legislation, including the right to abrogate the Eleventh Amendment immunity of the states.

Pursuant to its Article I powers, Congress enacted the Lanham Act providing an amalgam of protections for businesses, including the right to seek damages resulting from a competitor's false advertising of its products and services. In 1992, Congress enacted the TRCA, which by its explicit terms serves to abrogate the Eleventh Amendment immunity of the states and to treat the states as "persons" in the same manner as all other entities made subject to the Lanham Act. The legislative history of the TRCA makes it clear that the statutory provisions were designed specifically to comply with this Court's requirement that abrogation of the Eleventh Amendment immunity must be unmistakably clear in the language of the statute itself. Congress also made it clear that

the language of the TRCA was designed to meet this Court's requirement of explicit language for the *Parden* doctrine to apply.

CSB maintains in answer to the first Constitutional issue raised by this petition that the TRCA's abrogation of the states' immunity under the Eleventh Amendment, as it applies to the false advertising of a competitor's own products and services, is a constitutional exercise of Congress' Section 5 Fourteenth Amendment power. The position of Florida Prepaid is that, under *Seminole Tribe*, no property or liberty rights created by Congress pursuant to Article I of the Constitution can be made subject to Congress' Section 5 Fourteenth Amendment enforcement powers; and therefore, the TRCA is unconstitutional. That, CSB maintains, represents a fundamental misreading of this Court's decision in *Seminole Tribe*. *Seminole Tribe* did not involve any liberty or property rights. Therefore, it offers no authority for the proposition that Congress' Section 5 powers cannot be used to enforce against the states the guarantees of Section 1 of the Fourteenth Amendment with respect to any and all property rights, including those which Congress has created under its Article I powers.

The district court in this case implicitly recognized that property rights created by Congress pursuant to Article I are subject to Congress' Section 5 Fourteenth Amendment power by upholding the constitutional validity of Congress' 1992 legislation abrogating the immunity of the states for the purpose of enforcing patents.[3]

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[3] Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230 (1992). *See College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd.*, 948 F. Supp. 400 (D.N.J. 1996).

Both the district court and the Court of Appeals expressed the fear that a finding that the TRCA is constitutional with respect to the issues in this case would serve to undermine this Court's holding in *Seminole Tribe*. They did so with no explicit discussion of the relationship between Congress' Article I and Section 5, Fourteenth Amendment powers.

Both the district court and the Court of Appeals failed to recognize that "property" is not created by the Constitution. Rather, property has been created by the common law and the legislative enactments of the states and the federal government. Surely, Congress, under Article I, is as free to create property rights as are the states. There is nothing in *Seminole Tribe* that suggests that Congress' abrogation power under the Fourteenth Amendment cannot reach the deprivation of liberty or property rights by the states without due process of law, without regard to the origin of those rights.

The Court of Appeals also dismissed the significance of this Court's holding that a "business" is property for the purpose of the protections afforded by the Fourteenth Amendment. Since the protections of the Lanham Act are available only to business competitors and because in any event the tort of unfair competition is a tort designed to protect property interests, the Court of Appeals erred by finding that CSB's Lanham Act claim did not involve a property interest within the protections of the Fourteenth Amendment.

The second constitutional issue concerns the *Parden* doctrine. CSB maintains that Florida Prepaid waived its Eleventh Amendment immunity by engaging in a commercial enterprise subsequent to the time that Congress made clear that to do so would be deemed a waiver of immunity under the *Parden* doctrine. The Court of Appeals declined to affirm the district court's holding that *Parden* had been overruled by implication by this Court's decision in *Seminole Tribe*. In

doing so, however, the Court of Appeals adopted a definition of core governmental function that is so broad that, as a practical matter, *Parden* is deprived of any meaning.

The Court of Appeals correctly found that education is a core state governmental function. The Court of Appeals, however, erred in finding that providing investment services to meet the costs of college is a governmental function beyond the reach of *Parden*. Florida Prepaid, a business enterprise, has entered into the commercial arena in competition with CSB and other private sector businesses by offering a means of saving to meet the future costs of a college education. This is an area that traditionally has been left to the private sector. In any event, such activity clearly is not within the exclusive sphere of the states.

In *Seminole Tribe*, this Court characterized the *Parden* waiver doctrine as "unremarkable, and completely unrelated" to the issue of the abrogation of the Eleventh Amendment immunity of the states by the exercise of Congress' Section 5 Fourteenth Amendment powers. *Seminole Tribe*, 517 U.S. at 65. The continued validity of *Parden* does not threaten the valid application of the Eleventh Amendment since the states will be deemed to have waived their immunity only when they leave core governmental functions and enter into the commercial marketplace, as Florida Prepaid has done here.

In sum, the Court of Appeals erred both in finding that the TRCA was not a valid exercise of Congress' Section 5 Fourteenth Amendment power, and also erred in finding that the *Parden* doctrine does not apply to the facts of this case.

CSB believes that this Court's review of this case should be guided by the words of Chief Justice Marshall writing for the Court in *McCulloch v. Maryland*, 17 U.S. (4 Wheat.) 316, 431 (1819):

> We admit, as all must admit, that the powers of the government are limited, and that its limits are not to be transcended. But we think the sound construction of the constitution must allow to the national legislature that discretion, with respect to the means by which the powers it confers are to be carried into execution, which will enable that body to perform the high duties assigned to it, in the manner most beneficial to the people. Let the end be legitimate, let it be within the scope of the constitution, and all means which are not prohibited, but consist with the letter and spirit of the constitution, are constitutional.

ARGUMENT

I. THE LIBERTY AND PROPERTY RIGHTS PROTECTED BY THE FALSE ADVERTISING PROVISIONS OF SECTION 43(A) OF THE LANHAM ACT ARE WITHIN THE PROTECTION OF THE FOURTEENTH AMENDMENT.

By enacting the TRCA, Congress abrogated the Eleventh Amendment immunity of the states in order to permit federal court jurisdiction over actions under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The Court of Appeals found that the "TRCA surely manifests" the congressional intent to abrogate the Eleventh Amendment immunity of the states. *College Savings Bank*, 131 F.3d at 357, Pet. App. at 7a. The Court of Appeals also found, however, that the false advertising provisions of Section 43(a), as applied to a competitor's misrepresentation of its own product, do not protect property interests within the meaning of the Fourteenth

Amendment, and are, therefore, beyond Congress' Section 5 powers. That finding, however, is contrary to this Court's construction of the scope of the liberty and property interests protected by the Fourteenth Amendment.

A. THIS COURT HAS RECOGNIZED THAT CONGRESS' SECTION 5, FOURTEENTH AMENDMENT POWER CAN BE USED TO ABROGATE THE ELEVENTH AMENDMENT.

1. The Constitutional Standard

This Court, in *Seminole Tribe,* recognized that Congress has the authority under Section 5 of the Fourteenth Amendment to enact legislation to enforce the provisions of Section 1 of the Amendment, including abrogating the Eleventh Amendment immunity of the states:

> In *Fitzpatrick*, we recognized that the Fourteenth Amendment, by expanding federal power at the expense of state autonomy, had fundamentally altered the balance of state and federal power struck by the Constitution. We noted that § 1 of the Fourteenth Amendment contained prohibitions expressly directed at the States and that § 5 of the Amendment expressly provided that "The Congress shall have power to enforce, by appropriate legislation, the provisions of this article." We held that through the Fourteenth Amendment, federal power extended to intrude upon the province of the Eleventh Amendment and therefore that § 5 of the Fourteenth Amendment allowed Congress to abrogate the

> immunity from suit guaranteed by that Amendment.

Seminole Tribe, 517 U.S. at 59 (citations omitted). *See also City of Boerne v. Flores*, 521 U.S. 507, 117 S. Ct. 2157 (1997).

2. Section 43(a) Of The Lanham Act Protects A Business' Property Rights.

Section 43(a) of the Lanham Act represents a federal codification of the tort of unfair competition, a tort that by definition serves to protect property rights. The Act in pertinent part states that the intent is "to protect persons engaged in . . . commerce against unfair competition . . . ." 15 U.S.C. § 1127. It has long been recognized that the tort of unfair competition protects property rights. As noted in PROSSER AND KEETON ON TORTS: "unfair competition torts appear to involve less a question of tortious activity than a question of *property* to be protected." W. PAGE KEETON, ET AL., PROSSER AND KEETON ON THE LAW OF TORTS, § 130, at 1015 (5th Ed. 1984) (emphasis added).

Further, Section 43(a) of the Lanham Act is simply a federal codification of the common law tort of unfair competition. *See SK&F Co. v. Primo Pharmaceutical Laboratories*, 625 F.2d 1055, 1066 (3d Cir. 1980)("[E]xcept for the interstate commerce requirement, the elements of the unfair competition torts described by New Jersey law and by Section 43(a) of the Lanham Act are the same."). Section 43(a) represents a federal codification of the common law tort of unfair competition. In *L'Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649, 651 (3rd Cir. 1954), the Third Circuit acknowledged the scope of the rights protected by the false advertising portion of Section 43(a) of the Lanham Act:

> But however similar to or different from pre-existing law, here is a provision of a federal

> statue which, with clarity and precision adequate for judicial administration, creates and defines rights and duties and provides for their vindication in the federal courts.

See also AT&T Co. v. Winback and Conserve Program, Inc., 42 F.3d 1421, 1428 (3d Cir. 1994), *cert. denied*, 514 U.S. 1103 (1995). Thus, the Fourteenth Amendment, by affording protection to "property," by its terms extends to the tort of unfair competition.

Treating the rights against unfair competition codified by Section 43(a) of the Lanham Act as property rights protectable by the Fourteenth Amendment and within Congress' power under Section 5 of that Amendment is consistent with this Court's precedent. *International News Service v. Associated Press*, 248 U.S. 215, 236 (1918)("[T]he *right to acquire property* by honest labor or the conduct of a lawful business is as much entitled to protection as the *right to guard property already acquired. It is this right that furnishes the basis of the jurisdiction in the ordinary case of unfair competition.")* (emphasis added) (citations omitted).

The Court of Appeals dismissed the significance of *International News Service* in a footnote. *College Savings Bank*, 131 F.3d at 360-61, n.4, Pet. App. at 15a n.4. ("Thus, while the opinion does discuss property rights and the tort of unfair competition, the Court did not determine whether the tortious actions injured a property right worthy of protection under the Fourteenth Amendment. The Court merely determined that an injury to a specific right had occurred.").

The reasoning by this Court in *International News Service* was in the context of jurisdiction to hear the case in equity. Although not called upon directly to decide whether the tort of unfair competition represents a "property" right, this Court appears to take as a given that "the ordinary case of

unfair competition" represents a means of protecting property rights. That the conclusion was in the context of jurisdictional findings adds strength to the application of the conclusion to this case. There is no basis for concluding that property is property for the purpose of equitable jurisdiction, but is not property for the purposes of enforcement under the Fourteenth Amendment.[4]

3. The Protections Of The Lanham Act Are Available Only To Business Competitors.

Section 43(a) protection is available only to a competing business. Thus, College Savings Bank has standing to bring this Lanham Act case only because it has suffered damage to its business property interests. Section 43(a), 15 U.S.C. § 1125(a), confers standing on "any person who believes that he is or is likely to be damaged" as a result of a defendant's activities. This phrase has been interpreted as intended "exclusively to protect the interests of a purely commercial class against unscrupulous commercial conduct," and thus consumers have no standing to sue. *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686, 692 (2d Cir.), *cert. denied*, 404 U.S. 1004 (1971). *See also Serbin v. Ziebart International Corp.*, 11 F.3d 1163, 1179 (3d Cir., 1993), *reh'g en banc denied, sub nom Guarino v. Sun Co.*, 1993 U.S. App. LEXIS 34410 (3d Cir. 1993)("[W]e join the Second Circuit in holding that Congress, when authorizing federal courts to deal with claims of false advertising, did not contemplate that federal courts should entertain claims brought by consumers.");

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[4] More recently, this Court broadly defined property rights to include even the right to publicity. *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562 (1977). The Court in that case recognized the broad scope of "property" rights and also noted that protecting the right of publicity "provides an economic incentive for him to make the investment required to produce a performance of interest to the public. The same consideration underlies the patent and copyright laws long enforced by this Court." *Id.* at 576.

Barrus v. Sylvania, 55 F.3d 468, 470 (9th Cir. 1995)("As consumers, [plaintiffs] have alleged neither commercial injury nor competitive injury. Therefore . . . they lack standing."); and *Stanfield v. Osborne Industrials*, 52 F.3d 867, 873 (10th Cir.), *cert. denied*, 516 U.S. 920 (1995)("Thus, to have standing for a false advertising claim, the plaintiff must be a competitor of the defendant and allege a competitive injury.").

4. Businesses Are Property Within The Meaning Of The Fourteenth Amendment And Have Liberty And Property Interests Protected By That Amendment.

a. This Court's Precedent.

A long line of decisions of this Court have found that a business is a property or liberty interest. It follows inexorably that the Fourteenth Amendment protects against any activities by the states that impair or destroy a business' property. Similarly, the Congressional power under the Fourteenth Amendment "to enforce by appropriate legislation the provisions" of the Fourteenth Amendment includes the power to legislate protection against actions by an arm of the state that may impair or destroy a business' property, by engaging in unfair and misleading marketing practices proscribed by Section 43(a) of the Lanham Act, for example.

This Court has recognized that the rights protected by the Fourteenth Amendment are inextricably intertwined and that it is immaterial whether an interest is characterized as a property interest or a liberty interest. *Smith v. Texas*, 233 U.S. 630, 636 (1914)("Life, liberty, property and the equal protection of the law, grouped together in the Constitution, are so related that the deprivation of any one of those separate and independent rights may lessen or extinguish the value of the other three."). It is well established that a "business" is a property right entitled to protection under the Fourteenth

Amendment. *Duplex Co. v. Deering*, 254 U.S. 443, 465 (1920). (A "business . . . is a property right, entitled to protection against unlawful injury or interference . . . .").

Additionally, this Court repeatedly has held that the enforcement power of Congress under Section 5 of the Fourteenth Amendment reaches "practices that in and of themselves do not violate" the Amendment. *City of Rome v. United States*, 446 U.S. 156, 177 (1980), relying, *inter alia*, upon *Ex Parte Virginia*, 100 U.S. 339 (1879); and *South Carolina v. Katzenbach*, 383 U.S. 301 (1966). This Court's decision in *City of Boerne* again reconfirmed Congress' Section 5 power to enforce the Fourteenth Amendment through legislation, regardless of whether there has been a constitutional tort. *City of Boerne*, 117 S. Ct. at 2163.

The Court of Appeals recognized the breadth of the interests found by this Court to be within the scope of property and liberty rights protected by the Fourteenth Amendment. *College Savings Bank*, 131 F.3d at 360, Pet. App. at 14a, citing *Tulsa Professional Collection Serv. v. Pope*, 485 U.S. 478, 485 (1988) (recognizing an unsecured claim against the state); *Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 430 (1982)("[T]he types of interests protected as 'property' are varied and, as often as not, intangible, relating 'to the whole domain of social and economic fact'") (citations omitted); and *Paul v. Davis*, 424 U.S. 693, 710 (1976)("[T]here exists a variety of interests which are difficult of definition, but are nevertheless comprehended within the meaning of 'liberty' or 'property' as meant in the Due Process Clause.").

A number of other cases support the position that a business is a property right protected by the Fourteenth Amendment. *Liggett Co. v. Baldridge*, 278 U.S. 105, 111 (1928)("That appellant's business is a property right . . . and as such entitled to protection against state legislation in contravention of the federal Constitution is, of course, clear.").

(citations omitted), *overruled on other grounds, North Dakota Pharmacy Bd. v. Snyder's Stores,* 414 U.S. 156 (1973)[5]; *Pierce v. Society of Sisters,* 268 U.S. 510, 536 (1925) (Holding that a state law that would have required that children be sent only to state schools represented "an arbitrary, unreasonable and unlawful interference with [plaintiffs'] patrons and the consequent destruction of their business and property."); *Truax v. Corrigan,* 257 U.S. 312, 327 (1921)("Plaintiff's business is a property right (*Duplex Printing Press Co. v. Deering,* 254 U.S. 443, 465) and free access for employees, owner and customers to his place of business is incident to such right."); *United States v. Tropiano,* 418 F.2d 1069, 1076 (2d Cir. 1969), *cert. denied,* 397 U.S. 102 (1970)("The right to pursue a lawful business including the solicitation of customers necessary to the conduct of such business has long been recognized as a property right within the protection of the Fifth and Fourteenth Amendments to the Constitution . . . .") (citations omitted).

Despite its discussion of the broad protection afforded to businesses under the Fourteenth Amendment, the Court of Appeals has failed to follow the precedents of this Court defining the scope of that protection. In contrast, the Federal Circuit found that Florida Prepaid had cited "no authority forbidding Congress from enacting statutes that abrogate state immunity in order to protect persons from property deprivations without due process of law." *College Savings Bank,* 148 F.3d at 1349, Pet. App. at 105a. That conclusion applies equally to the proceedings in the Third Circuit in the instant case. As the Federal Circuit concluded:

> Surely the enforcement power of Congress under Section 5 must embrace the full range

[5] Both *Liggett Co.* and *North Dakota Pharmacy Bd.* recognized that the failure of a state to grant a license to a business would represent a violation of Section 1 of the Fourteenth Amendment, unless found to be a reasonable exercise of police power.

> of behavior that the Supreme Court has held to violate the substantive provisions in section 1 of the Amendment. (Citing *City of Boerne,* 117 S. Ct. at 2163).

Id.

b. All Forms Of Property Are Protected By The Fourteenth Amendment.

Obviously, all forms of tangible property, *e.g.,* an automobile or real estate, more readily fit into the commonplace concept of "property." Even many intangible property rights, such as trademarks, are more readily conceptualized as "property" than is the property right of a business to be protected from unfair competition.

This Court has recognized, however, that there is no essential distinction between trademark infringement and the law of unfair competition. Indeed, the business element is essential; a trademark is not property except in connection with an existing business. As stated by this Court:

> This essential element is the same in trade-mark cases as in cases of unfair competition unaccompanied with trade-mark infringement. In fact, the common law of trade-marks is but a part of the broader law of unfair competition.

Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 413 (1916).

This Court concluded:

> In short, the trade-mark is treated as merely a protection for the good-will, and not the subject of property except in connection with an existing business. (citations omitted.)

Id. at 414. *See also United Drug Co. v. Rectanus Co.*, 248 U.S. 90, 97 (1918)("The law of trade-marks is but a part of the broader law of unfair competition . . . ."); and S. Rep. No. 1333, *reprinted in* 1946 U.S.C.C.A.N. at 1275.

The harm to be prevented by protecting any kind of property rights, however characterized, is not distinguishable. Ultimately, the purpose of protecting all property rights, and in particular those created and defined by Section 43(a) of the Lanham Act, is to ensure that a business is not deprived of the monetary advantages of that property without due process of law. CSB is deprived of the revenue and earnings to which it is entitled when a competitor falsely describes its own product, thereby depriving CSB of customers and income because of the false descriptions. That deprivation of property, *i.e.*, the earnings and revenues which it would otherwise enjoy but for the false description of the competitor's products or services, is protected by the Fourteenth Amendment.

Under Article I, Congress has the power to create and codify particular types of property rights. Section 43(a) of the Lanham Act was enacted pursuant to that power. Congress also has the power to protect those property rights against the states by exercising its Section 5 Fourteenth Amendment powers. The extraordinary position that is necessarily taken by Florida Prepaid in this case is that Congress, presumably alone among sources of law, has no power to create property rights entitled to the protection of the Fourteenth Amendment. That

is a radical, wholly unprecedented position which finds no support by the holding of this Court in *Seminole Tribe*.

B. THIS COURT'S DECISION IN *CITY OF BOERNE* SUPPORTS THE CONSTITUTIONALITY OF THE TRCA.

This appeal arose because of the Court of Appeals' ruling that this Court's decision in *Seminole Tribe* necessarily served to invalidate Congress' 1992 adoption of the TRCA, which abrogated the Eleventh Amendment immunity of the states for the purpose of enforcing the Lanham Act. *Seminole Tribe*, however, addressed solely the power of Congress to abrogate the Eleventh Amendment pursuant to its Article I powers. The case did not involve any liberty or property interests. *Seminole Tribe of Florida v. State of Fla.*, 11 F.3d 1016, 1025 (11th Cir. 1994), *aff'd*, 517 U.S. 44 (1996)("Thus, IGRA creates no liberty or property interests and cannot implicate the Fourteenth Amendment.").

This Court explicitly recognized in *Seminole Tribe* that Congress has the power to abrogate the Eleventh Amendment under Section 5 of the Fourteenth Amendment. *Seminole Tribe*, 517 U.S. at 59. Ultimately, therefore, *Seminole Tribe* is of only limited assistance in addressing this case, which involves the scope of the liberty and property interests protected by Section 1 of the Fourteenth Amendment. This Court's decision in *City of Boerne* is a more useful guide in addressing the constitutionality of the TRCA.

The essence of this Court's decision in *City of Boerne* is that there is no "constitutional right to ignore neutral laws of general applicability." *City of Boerne*, 117 S. Ct. at 2161, citing *Employment Div., Dep't of Human Resources of Oregon v. Smith*, 494 U.S. 872 (1990). The enactment of the Religious Freedom Restoration Act of 1993 (RFRA), 42 U.S.C. 2000bb *et seq.*, was a direct and explicit attempt by Congress to

overturn this Court's holding in *Smith*. *City of Boerne*, 117 S. Ct. at 2161-62. This Court, however, already had found in *Smith* that a law of neutral application does not violate the prohibitions of Section 1 of the Fourteenth Amendment. Thus, RFRA was an attempt by Congress to interpret and define the substantive protections of the Fourteenth Amendment. Congress does not have "the power to decree the substance of the Fourteenth Amendment's restrictions on the States." *City of Boerne*, 117 S. Ct. at 2164.

This case presents quite different issues. Here, no substantive change in constitutional protections is involved. Congress, by enactment of the TRCA, simply placed the states on an equal footing with private parties by requiring the states to be subject to the same rule of law applicable to private parties, *i.e.*, to be responsible for damages caused by violations of the Lanham Act. The TRCA is designed to enforce the constitutional protections afforded against the states by Section 1 of the Fourteenth Amendment, *i.e.*, the disregard of the liberty and property rights protected by Section 43(a) of the Lanham Act. Unlike RFRA, the TRCA does not constitute "displacing laws and prohibiting official actions of almost every description . . . ." *City of Boerne*, 117 S. Ct. at 2170. Here there is a proportionality and congruence between the Congressional means adopted and the end to be achieved.

City of Boerne reaffirmed the broad scope of Congress' Fourteenth Amendment enforcement powers. *City of Boerne*, 117 S. Ct. at 2163 ("All must acknowledge that Section 5 is 'a positive grant of legislative power' to Congress") (quoting *Katzenbach v. Morgan*, 384 U.S. 641, 651 (1966)).[6] This Court

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[6] The Court also noted that:

> Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view, whatever tends to enforce submission to the prohibitions they contain, and to secure to all persons the enjoyment of perfect equality of civil rights and the equal protection of the laws against State denial or invasion, if not prohibited, is brought within the domain of congressional power.

Ex parte Virginia, 100 U.S. 339, 345-46 (1879).

recognized that "the line between measures that remedy or prevent unconstitutional actions and measures that make a substantive change in the governing law is not easy to discern, and Congress must have wide latitude in determining where it lies . . . ." *City of Boerne* 117 S. Ct. at 2164. The Court also held that "[w]hen Congress acts within its sphere of power and responsibilities, it has not just the right but the duty to make its own informed judgment on the meaning and force of the Constitution." *City of Boerne*, 117 S. Ct. at 2171.

It is within Congress' Article I "sphere of power" to establish the liberty and property rights to which businesses shall be entitled. That is precisely what Congress did in enacting Section 43(a) of the Lanham Act. Since it is established that property rights are a product of laws, not the Constitution, the Congressional determination in the TRCA that the states should be held responsible for violations of those property rights is within Congress' Section 5 powers.

C. THE COURTS BELOW HAVE ADOPTED AN ERRONEOUS INTERPRETATION OF CONGRESS' POWER UNDER SECTION 5 OF THE FOURTEENTH AMENDMENT.

1. Florida Prepaid's Position.

The specific issue presented by this case is whether false and deceptive advertising implicates a business property right protected by the Fourteenth Amendment. The more fundamental constitutional issue presented by this case, as it relates to the power of Congress under Section 5 of the

Fourteenth Amendment, is whether the Fourteenth Amendment applies to all liberty and property rights. Florida Prepaid maintains that property rights created by Congress pursuant to its Article I powers cannot be made subject to Congress' enforcement power under Section 5 of the Fourteenth Amendment. Florida Prepaid contends, therefore, that to permit Congress to exercise its Section 5 power with respect to the rights created by the Lanham Act would effectively nullify *Seminole Tribe's* overruling of *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989). Florida Prepaid's premise is that because the Lanham Act is a creature of Congress' Article I commerce power, adoption of the TRCA cannot be a valid exercise of Congress' power under Section 5 of the Fourteenth Amendment.

The Court of Appeals' adoption of Florida Prepaid's position fails to come to grips with the fundamental fact that "[p]roperty interests, of course, are not created by the Constitution." *Board of Regents v. Roth*, 408 U.S. 564, 577 (1972). "Rather they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law . . . ." *Id.* In sum, creating and defining property rights is a legislative, not a constitutional, exercise.

There can be no dispute that Congress is free under its Section 5 power to protect property interests as created by the states by statute or as defined by the common law. To do otherwise would deprive Section 5 of all meaning. Thus, Florida Prepaid's ultimate position can be only that Congress can enact remedial legislation under Section 5 to protect property rights, *except for property rights that the Congress itself has created.* Florida Prepaid's position is a wholly unprecedented and unsupported attempt to limit congressional power.

As made clear by this Court's decision in *City of Boerne v. Flores*, the Fourteenth Amendment is not, in itself, a

grant of power to Congress to create substantive rights. Rather, Congress, in exercising its Section 5 power, can only enforce against the states the procedural due process guaranteed by Section 1 of the Fourteenth Amendment. Surely, however, the fact that Congress does not have the power under the Fourteenth Amendment to create property rights cannot mean that Congress cannot create enforceable property rights under its Article I power. Congress' enforcement power under Section 5 of the Fourteenth Amendment necessarily includes the authority to protect all property rights, regardless of whether those rights are the product of state or federal law. Florida Prepaid's radical position to the contrary is flatly wrong[7].

2. The District Court Failed To Recognize That The Fourteenth Amendment Serves To Protect Property, Regardless Of The Source of That Property.

The district court found that the 1992 amendments to the Patent Act were a valid and constitutional exercise of Congress' Section 5 powers under the Fourteenth Amendment. Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230. The finding was premised upon the court's conclusion that a patent is "property" for the purposes of the Fourteenth Amendment. *College Savings Bank*, 948 F. Supp. at 422-26, Pet. App. at 79a-87a. The district court certainly was entirely correct in reciting and

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[7] Florida Prepaid's ultimate position is more radical. Florida Prepaid contends that the Fourteenth Amendment can be used only to remedy the "kind of 'insidious discrimination' against the newly freed slaves that prompted its adoption." *College Savings Bank*, 948 F. Supp. at 423-24, Pet. App. at 82a. That position has been rejected decisively by both the district court and the Federal Circuit. *See College Savings Bank*, 948 F. Supp. at 424, Pet. App. at 82a and *College Savings Bank*, 148 F.3d at 1349, Pet. App. at 104a.

noting that there is well established authority for the proposition that a patent is property. *Id.*

The district court also found, however, that the creation of a right to be "free from alleged false advertising simply does not qualify as a property right for the purposes of the Due Process Clause of the Fourteenth Amendment . . . ." *College Savings Bank*, 948 F. Supp. at 426, Pet. App. at 89a. The district found that Congress cannot "by simple fiat" declare that a particular cause of action represents property. *Id.*, 948 F. Supp. at 427, Pet. App. at 90a, 91a.

That formulation misstates the issue. Congress can create property under its Article I powers. In the case at bar it is clear that Congress, pursuant to the exercise of its Article I powers, enacted Section 43(a) of the Lanham Act. Section 43(a) creates a number of rights for businesses, including the right to bring an action against a competitor for unfair competition. Contrary to the contentions of Florida Prepaid, the Fourteenth Amendment protects *all* property, including property rights created by Congress under its Article I powers. Although CSB does not dispute that ultimately it is for the courts to determine whether a particular right created by the Congress pursuant to Article I represents a liberty or property right protected by the Fourteenth Amendment, it is equally clear that the courts should give deference to a congressional determination that a particular right that it has created pursuant to its Article I power is within the protection of the Fourteenth Amendment. *City of Boerne*, 117 S. Ct. at 2164, 2171-72.

3. The Court Of Appeals Failed To Recognize That Property Created By Congress Pursuant To Its Article I Powers Is Protected By The Fourteenth Amendment.

Similar to the district court, the Court of Appeals failed to recognize that property rights created by Congress under

Article I are protected by the Fourteenth Amendment. The Court of Appeals found correctly that this Court has established a two-part standard to determine Congress' power to abrogate the Eleventh Amendment immunity of the States. This Court has stated that in order to find a valid abrogation, two questions must be answered affirmatively: "First, whether Congress has 'unequivocally expresse[d] its intent to abrogate the immunity,' and second, whether Congress has acted 'pursuant to a valid exercise of power.'" *Seminole Tribe*, 517 U.S. at 55 (citation omitted).

The Court of Appeals found that the language of the TRCA "manifests Congress' unambiguous intent to abrogate the states' immunity." *College Savings Bank*, 131 F.3d at 357, Pet. App. at 8a. That finding by the Court of Appeals is beyond argument. The pertinent portions of the TRCA provide that any state, or instrumentality of the state "shall not be immune, under the Eleventh Amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person . . . ." 15 U.S.C. § 1122. Therefore, Congress' action manifestly satisfies the first part of the test as set forth in *Seminole Tribe*.

The Court of Appeals also found that: "Clearly, a business is an established property right entitled to protection under the Fourteenth Amendment." *College Savings Bank*, 131 F.3d at 361, Pet. App. at 15a (citations omitted). Despite that holding, the Court of Appeals found erroneously that the TRCA failed to meet the second part of the test set forth in *Seminole Tribe* by concluding that destruction of the property interests of CSB by a competitor's unfair and deceptive advertising is beyond the reach of the Fourteenth Amendment. The Court of Appeals held, with respect to Section 43(a) of the Lanham Act, that "[t]he only cognizable property right that could be involved would be a right to be free of false advertising, a right that is not an intangible property right protected under the Fourteenth Amendment." *Id.*, 131 F.3d at

360, Pet. App. at 14a. The Court of Appeals also held that "just because the state's actions impact on a private business does not mean that this action somehow infringes on the Fourteenth Amendment rights of the private individual." *College Savings Bank,* 131 F.3d at 361, Pet. App. at 16a, 17a.

The essence of the property rights protected by Section 43(a), however, is a business' loss of revenue and earnings resulting from a competitor falsely advertising its product. The "state's action impact[ing] on" CSB is the loss of customers. By engaging in unfair competition, Florida Prepaid has made sales of its investment products that would otherwise have been made by CSB. CSB has lost the earnings that would have resulted from those sales. The loss of earnings impairs CSB's ability to form capital, the life blood of any business and the growth force of our economic system. Ultimately, it is this loss of money, which clearly is property, that Section 43(a) is designed to protect. If a business is not protected by the Fourteenth Amendment against the damages caused by false advertising, the Court of Appeals' finding that "a business is an established property right entitled to protection under the Fourteenth Amendment" is shorn of much of its meaning.

The Court of Appeals appears to premise its holding principally upon a fear that to recognize Congress' power in this case would give to the Congress "almost unrestricted power to subject states to suit through the exercise of its abrogation power." *College Savings Bank,* 131 F.3d at 361, Pet. App. at 17a. The Court of Appeals concluded that to recognize Congress' power in this instance would allow Congress to "pass any law that tangentially affected the ability of businesses to operate and then create causes of action against the states in federal court if they infringed on those federally created rights." *Id.*

The Third Circuit's concerns are misplaced, and its holding serves to deprecate Congress' Article I constitutional power to create property rights. Property has been created and defined by the common law, state legislatures and the federal government to include a wide array of rights. The breadth of those rights provides no basis for concluding that a particular right is not protected by the Fourteenth Amendment because of a desire to restrain Congress' abrogation of the states' Eleventh Amendment immunity. Most important, there can be no restrictions upon Congress' Section 5 power to enact remedial legislation abrogating the states' immunity merely because the property rights in issue were created and defined by Congress under its Article I power.

4. The Cases Relied Upon By The Court Of Appeals Do Not Support The Decision.

The Court of Appeals placed principal reliance for its holding upon *Gentry v. Howard*, 365 F. Supp. 567 (W.D. La. 1973). *College Savings Bank,* 131 F.3d at 361, Pet. App. at 16a. That case stands for the unremarkable proposition that the loss of revenue resulting from a competitive service operated by a governmental entity does not amount to a taking or deprivation of property within the meaning of the Fourteenth Amendment. As found in that case, mere competition is not in violation of the guarantees of the Fourteenth Amendment. Fourteenth Amendment guarantees, however, do extend to a state destroying a business' property by engaging in false and misleading advertising.

The Court of Appeals also relied upon *Hegeman Farms Corp. v. Baldwin,* 293 U.S. 163, 170 (1934)("The Fourteenth Amendment does not protect a business against the hazards of competition"). *College Savings Bank,* 131 F.3d. at 361, Pet. App. at 16a. *Hegeman Farms* and the holding relied upon by the Court of Appeals are inapplicable to this case. CSB recognizes that the states can enter the commercial sphere and

compete with other investment vehicles for college savings. CSB's complaint does not seek protection from the hazards of lawful competition from Florida Prepaid, but rather protection against unfair competition in the form of false and deceptive statements that deprive CSB of its revenues and earnings.

The Court of Appeals' reliance on *Paul v. Davis*, 424 U.S. 693 (1976), also is misplaced. *College Savings Bank*, 131 F.3d at 360, Pet. App. at 15a. In *Paul*, this Court rejected the proposition that a person's personal reputation alone, without monetary loss, represents an intangible property interest protected by the Fourteenth Amendment. The Court held that the prior Supreme Court cases do not establish that "reputation alone, apart from some more tangible interest such as employment, is either 'liberty' or 'property' by itself sufficient to invoke the procedural protection of the Due Process Clause." *Paul*, 424 U.S. at 701. This case involves the "tangible interest" of CSB to seek redress for the monetary loss caused by false advertising, a property and liberty interest that differs fundamentally from the personal reputation issue addressed in *Paul*.

Judge Wisdom, in his dissent in *Chavez v. Arte Publico Press*, 139 F.3d 504 (5th Cir. 1998), *reh'g en banc granted*, criticized a similar reliance by the majority upon *Paul*. As he explained:

> *Paul* involved an injury to reputation only. The present case involves much more than an interest in reputation. This case involves an interest created under the Lanham Act.

Chavez, 157 F.3d. at 296, n.41. Similarly, CSB's claim in this case has nothing to do with reputation, but instead seeks redress for the damages caused to its business resulting from Florida Prepaid's false advertising of its product in violation of a property interest created under the Lanham Act.

5. The Harm To Property Rights From All Forms Of False Advertising Is Identical.

The Court of Appeals also suggested that there could be a constitutional distinction within Section 43(a) of the Lanham Act depending upon whether the violation consists of misrepresentation about a competitor's goods or services, or misrepresentation of one's own goods and services, which is the claim raised by CSB's complaint. *College Savings Bank*, 131 F.3d at 361-62, Pet. App. at 17a. There is, however, no principled distinction between the two kinds of misrepresentations. The property and liberty interests harmed by misrepresentation of a competitor's own goods or services are exactly the same as the interests harmed by misrepresentation about another person's goods or services. CSB recognizes that the panel did not decide the issue. Nevertheless, raising the possibility of a different outcome demonstrates confusion about the issue of the property interests protected by the Fourteenth Amendment.

A business represents a property right, a proposition that is beyond dispute. It is therefore neither feasible nor constitutionally sound to divide that property right so that only some portions of the right are protected by the Fourteenth Amendment. Congress has the constitutional authority to protect property by prohibiting false advertising by a business addressed to either its own or a competitor's goods and services. Congress did so by enacting the Lanham Act. Congress made the states amenable to suit in federal court for violating the property rights protected by the Lanham Act by enacting the TRCA. The possible distinction in the constitutionality of that Act postulated by the Court of Appeals makes no sense and should be rejected. TRAC is constitutional as applied to all forms of advertising prohibited by the Lanham Act.

D. THE FEDERAL CIRCUIT'S DECISION CORRECTLY RECOGNIZES THE POWER OF CONGRESS TO ENFORCE PROPERTY RIGHTS CREATED UNDER ARTICLE I BY THE EXERCISE OF ITS SECTION 5, FOURTEENTH AMENDMENT POWER.

The Federal Circuit found that Congress' Fourteenth Amendment power includes the power to protect property rights created by Congress pursuant to its Article I power. *College Savings Bank v. Florida Prepaid Postsecondary Educ. Exp. Bd.*, 148 F.3d. 1355 (Fed. Cir. 1998), *cert. granted*, 67 U.S.L.W. 3433 (1999). Docket No. 98-531. The Federal Circuit rejected Florida Prepaid's contention that this Court's overruling of *Union Gas* in *Seminole Tribe* means that any property right created by Congress pursuant to any of its Article I powers is necessarily beyond the power of Congress under Section 5 of the Fourteenth Amendment. *College Savings Bank*, 148 F.3d at 1351, Pet. App. at 111a.

The Federal Circuit rejected the Fifth Circuit's conclusion in *Chavez* that any right created by Congress pursuant to Article I is beyond the reach of Congress' abrogation power under Section 5 of the Fourteenth Amendment. *Id.*, 148 F.3d at 1351, Pet. App. At 111a. The Fifth Circuit based its decision on a spurious fear of an "end-run" around *Seminole Tribe*. *Chavez v. Arte Publico Press*, 157 F.3d 282, 289 (5th Cir. 1998), *reh'g en banc granted*. ("Congress could easily legislate 'property' interests and then attempt to subject states to suit in federal court for the violation of such interests. This end-run is just as possible under a liberal interpretation of the Due Process Clause of the

Fourteenth Amendment as it was under the theories of Article I rejected by the Court in *Seminole*.").[8]

The Federal Circuit criticized and refused to follow the Fifth Circuit's analysis and the similar analysis by the Third Circuit in the case here under review. *College Savings Bank*, 148 F.3d at 1351, Pet. App. at 111a. ("These cases miss the mark, however, because they ignore the essential fact that, because the Fourteenth Amendment was enacted subsequent to the Eleventh Amendment, unlike Article I, it expressly qualified the principle of sovereign immunity."). The Federal Circuit concluded:

> Our sister circuits wrongly equate the result afforded by Congressional power under the Fourteenth Amendment and Article I with the Constitutional structure under which Congress governs and the federal courts exercise jurisdiction. When the states adopted the Fourteenth Amendment, and consented to cede a portion of their authority to the federal government, it was within their contemplation that they limited their Eleventh Amendment immunity. *Fitzpatrick* teaches so, and we adhere to its reasoning. *See* 427 U.S. at 453-54.

Id.

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[8] In his dissent in *Chavez*, Judge Wisdom provides a compelling analysis of why the exercise of Congress' Section 5, Fourteenth Amendment power to protect property rights created by Congress pursuant to Article I is not inconsistent with this Court's overruling of *Union Gas*. *Chavez*, 157 F.3d. at 296-98. Judge Wisdom recognized that Congress can create property interests under its Article I powers and also can protect the property interests so created pursuant to its power under Section 5 of the Fourteenth Amendment. *Id.* at 296.

II. THE COURT OF APPEALS MISAPPLIED THE *PARDEN* DOCTRINE.

A. THE *PARDEN* DOCTRINE REMAINS VALID LAW AND SHOULD NOT BE OVERRULED.

The Court of Appeals correctly declined to affirm the district court's holding that this Court's decision in *Seminole Tribe* implicitly overruled *Parden*. *College Savings Bank*, 131 F.3d at 365, Pet. App. at 24a. ("[A] court of appeals should be reluctant to hold that the Supreme Court implicitly has overruled its own decision when the Court had an opportunity to overrule the decision explicitly and did not do so.").

More importantly, CSB contends that *Parden* should not be overruled because to do so would severely restrict the authority of Congress under Article I of the Constitution when states choose to leave a sphere that is exclusively their own and enter into the world of commerce. The *Parden* doctrine cannot be used to infringe upon the immunity provided to the states by the Eleventh Amendment, *so long as the states confine themselves to governmental functions*. Obviously, the purpose of the Eleventh Amendment was to protect the states from being subjected to suit in federal courts when functioning in their *governmental capacity*. There is no diminishment of the Eleventh Amendment by applying the *Parden* doctrine provided that Congress, with the requisite clarity, has made it clear that states will be deemed to have waived their immunity if they enter into commercial activities which, inevitably, compete with the private sector.

B. CONGRESS HAS STATED ITS INTENTIONS WITH THE CLARITY REQUIRED BY THIS COURT TO APPLY *PARDEN*.

The Court of Appeals found that in the case at bar all of the requirements for applying the *Parden* doctrine had been met, except for its finding that Florida Prepaid's activities were "an important or core government function." *College Savings Bank*, 131 F.3d at 363, Pet. App. at 21a. The Court of Appeals found "if a state or its instrumentality chooses to engage in proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act." *Id.* The Court of Appeals also found that by the enactment of the TRCA, Congress intended that a state or instrumentality engaging in proprietary activity "that potentially falls under the Lanham Act" can be held liable in federal court for violations of that Act. *Id.* Thus, this Court's requirement that there be "an unequivocal expression that Congress intended to override Eleventh Amendment immunity" was met by the TRCA. *Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 478 (1987). Further, the TRCA served to give the states clear notice that continuing to engage in the regulated activities would be deemed a waiver of sovereign immunity. Finally, Florida Prepaid has engaged in the activity covered by the federal legislation, *i.e.*, has engaged in allegedly unfair competition under Section 43(a) of the Lanham Act. *See College Savings Bank*, 131 F.3d at 363, Pet. App. at 21a.

There can be no doubt about the congressional intention, as the Court of Appeals correctly found. Congress' sole purpose in enacting the TRCA was to allow the states to be brought into federal court to answer for violations of the Lanham Act, including Section 43(a). Therefore, the *Employees* test, which focused exclusively on discerning a congressional intent to override the Eleventh Amendment, has clearly been met. *Employees of the Dep't of Pub. Health &*

Welfare v. Dep't of Pub. Health & Welfare, 411 U.S. 279, 285 (1973).

C. FLORIDA PREPAID'S ACTIVITIES ARE NOT BEYOND THE REACH OF *PARDEN*.

The Court of Appeals erred in finding that Florida Prepaid, by offering investment vehicles, was engaged in education as a core function of state government. The finding confuses "education" with financial investments used to meet the costs of college, clearly a private, not a governmental function.

Florida Prepaid, a "body corporate", Fla. Stat. § 240.551(5), J.A. 48, of the State of Florida, was created to manage the prepaid expense program with the power to engage in commercial transactions with the public and the power to sue and be sued in its own name. *Id.* § 240.551(5)(c)(2), J.A. at 49. Florida Prepaid's product is marketed outside of the State of Florida, and the proceeds of its program can be used for colleges outside of Florida. *Id.* § 240.551(7)(e), J.A. at 62-63. Florida Prepaid is authorized to collect administrative fees and penalties for delinquent payments. *Id.* § 240.554(5)(c)(13), J.A. at 50. Florida Prepaid controls the price of its contracts. As of June 1995, it had assets of almost $1.5 billion and a surplus of $184 million. *College Savings Bank*, 948 F. Supp. at 410, Pet. App. at 49a. Florida Prepaid's earnings cannot be used by the State of Florida. Fla. Stat. § 240.551(10), J.A. at 66-67.

Florida Prepaid described its program in its 1994 Annual Report as follows:

> Cooperative efforts of private enterprise and state government provide the daily operations

> of the Program. Only eight state employees oversee the Program's day-to-day objectives.[9]

The Annual Report also reveals that the program is carried out by "seven private companies," First Union National Bank of Florida, Ernst & Young, U.S. Trust, BTI Services, Inc., Coopers & Lybrand, The Hannah Group and North American Life Assurance Company. *Id.*

Florida Prepaid enjoys considerable autonomy, appointing its own executive director, and contracting with "private consultants, actuaries, managers, legal counsel, and auditors for administrative or technical assistance." *College Savings Bank*, 948 F. Supp. at 413, Pet. App. at 56a-57a. Florida Prepaid provides to its investors a return guaranteed to be sufficient to pay the future costs of college. *College Savings Bank*, 948 F. Supp. at 401-02, Pet. App. at 29a-30a.

In *Parden*, this Court found that Congress had the power to enact legislation governing conduct in areas not committed exclusively to the public domain and to deem a state to have constructively waived its Eleventh Amendment immunity if, after passage of the legislation, a state engaged in the regulated activity. *Parden*, 377 U.S. at 196 ("When a State leaves the sphere that is exclusively its own and enters into activities subject to Congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation."). Thus, when a state chooses to do business in an area which has been made subject to authorized federal legislation, it waives its immunity. Florida Prepaid has engaged in the selling of investment vehicles, an area where private persons normally run the enterprise. *Employees*, 411 U.S. at 284.

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[9] Florida Prepaid's 1994 Annual Report, attached as Exhibit B to Florida Prepaid's Answer, Affirmative, Defenses and Counterclaim.

Providing investment instruments to assist in meeting the cost of college is neither a sphere committed exclusively to the states nor a core governmental function, and is therefore within the scope of *Parden*. The Court of Appeals, however, concluded that the *Parden* test was changed by this Court's 1973 decision in *Employees*. The Court of Appeals interpreted *Employees* as modifying *Parden* by creating an "important government function exception to *Parden*." *College Savings Bank*, 131 F.3d at 362, Pet. App. at 19a. The Court of Appeals concluded "a state cannot be deemed to have waived its immunity if it is engaged in an important or core government function." *Id.*, at 131 F.3d 363, Pet. App. 19a.

Employees was decided prior to this Court's 1987 decision in *Welch*, in which this Court stated that the application of the *Parden* doctrine "required an unequivocal expression that Congress intended to override Eleventh Amendment immunity." *Welch*, 483 U.S. at 478. *Employees* was a forerunner of the *Welch* decision, relative to the needed clarity of the intention of Congress. In *Employees*, this Court concluded that "Congress desired to bring under the Act employees of hospitals and related institutions." *Employees*, 411 U.S. at 283. The significant finding by the Court, however, was that there was "not a word in the history of the 1966 Amendments to indicate a purpose of Congress to make it possible for the citizens of that State or another State to sue the State in the federal courts." *Id.* at 285. Because of the sweeping implications of concluding that Congress intended to impose a constructive waiver, the Court held that "we cannot conclude that Congress conditioned the operation of these facilities on the forfeiture of immunity from suit in a federal forum." *Id.*

In summary, *Employees* does not stand for the proposition that this Court has changed the basic test as set forth in *Parden*, *i.e.*, that the Congress has authority to impose

a constructive waiver "when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation . . . ." *Parden*, 377 U.S. at 196 Rather, *Employees* is a forerunner of this Court's decision that Congress must clearly express its intent for the *Parden* doctrine to apply.

The Court of Appeals' discussion of the overall importance of education and the importance of education to the states is immaterial to the issue before this Court. *College Savings Bank*, 131 F.3d at 363-65, Pet. App. at 21a-24a. The Court of Appeals has confused the distinction between the role of the states in providing educational institutions with the quite different function of providing investment vehicles for assisting parents and others to meet the costs of college. That certainly is not a sphere of authority exclusive to the states, nor indeed, a core function of the states. *See Genentech, Inc. v. University of California*, 143 F.3d 1446, 1453 (Fed. Cir. 1998), *petition for cert. filed 11/3/98*, Dkt. No. 98-731, 67 U.S.L.W. 3337 (1998)("[T]he University's actions are not at the core of the educational/research purposes for which the University was chartered as an arm of the state . . . .") (footnote omitted).

The Court of Appeals' interpretation would deprive the *Parden* doctrine of meaning, since virtually any activity undertaken by a state could be interpreted as assisting some function deemed to be important to a state government. The Court of Appeals properly held that it would be improper for the Court to hold that the *Parden* doctrine has been overruled by implication. The Court of Appeals, however, by finding *Parden* inapplicable based upon a conclusion that education is an important state function, rather than analyzing the issue of the financing of college costs, has effectively overruled the *Parden* doctrine by application.

In sum, the Court of Appeals erred in finding that Florida Prepaid's offering of investment vehicles is beyond the reach of the *Parden* doctrine.

CONCLUSION

For the above reasons, the Court of Appeals' judgment should be reversed and the case remanded for further proceedings.

February 22, 1999 Respectfully submitted,

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037-1350
(202) 457-6000

SAIBER SCHLESINGER SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

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COLLEGE SAVINGS BANK, PETITIONER

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

SETH P. WAXMAN
Solicitor General
Counsel of Record

DAVID W. OGDEN
Acting Assistant Attorney General

LAWRENCE G. WALLACE
Deputy Solicitor General

MALCOLM L. STEWART
Assistant to the Solicitor General

MARK B. STERN
MICHAEL E. ROBINSON
H. THOMAS BYRON III
Attorneys

Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

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QUESTIONS PRESENTED

Section 43(a) of the Lanham Trade-Mark Act, 15 U.S.C. 1125(a), establishes a private right of action for damages against any "person" who engages in false advertising of goods or services in interstate commerce. The Act unambiguously provides that States and state instrumentalities are among the "person[s]" subject to suit in federal court. The questions presented are as follows:

1. Whether the Florida Prepaid Postsecondary Education Expense Board impliedly waived its Eleventh Amendment immunity from suit in federal court by its marketing and sale of prepayment tuition plans.

2. Whether Congress's decision to subject the States to suit in federal court for engaging in the false advertising of commercial products can be sustained as an exercise of congressional power under Section 5 of the Fourteenth Amendment.

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In the Supreme Court of the United States

OCTOBER TERM, 1998

No. 98-149

COLLEGE SAVINGS BANK, PETITIONER

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-27a) is reported at 131 F.3d 353. The opinion of the district court (Pet. App. 28a-92a) is reported at 948 F. Supp. 400. An earlier opinion of the district court in this case is reported at 919 F. Supp. 756.

JURISDICTION

The judgment of the court of appeals was entered on December 5, 1997. A petition for rehearing was denied on February 17, 1998. Pet. App. 93a-94a. On April 21, 1998, Justice Souter extended the time for filing a petition for a writ of certiorari to and including July 17, 1998. The petition was filed on July 17, 1998, and was

granted on January 8, 1999. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

1. The Eleventh Amendment to the United States Constitution provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

2. The Fourteenth Amendment to the United States Constitution provides in relevant part:

> SECTION 1. * * * No State shall * * * deprive any person of life, liberty, or property, without due process of law.
>
> * * * * *
>
> SECTION 5. The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

3. Section 1122 of Title 15, United States Code, provides:

Liability of States, instrumentalities of States, and State officials

(a) Waiver of sovereign immunity

> Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in

> Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.

(b) Remedies

> In a suit described in subsection (a) of this section for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity. Such remedies include injunctive relief under section 1116 of this title, actual damages, profits, costs and attorney's fees under section 1117 of this title, destruction of infringing articles under section 1118 of this title, the remedies provided for under sections 1114, 1119, 1120, 1124 and 1125 of this title, and for any other remedies provided under this chapter.

4. Section 1125(a) of Title 15, United States Code, provides:

Civil action

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which —
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation,

connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capcity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

STATEMENT

1. The Lanham Trade-Mark Act (Lanham Act), 15 U.S.C. 1051 *et seq.*, contains a variety of provisions designed to safeguard the integrity of this country's commercial markets. Section 43(a) of the Act, 15 U.S.C. 1125(a), establishes a private right of action against any "person" who, *inter alia*, "in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. 1125(a)(1)(B).

As amended in 1992, see Trademark Remedy Clarification Act (TRCA), Pub. L. No. 102-542, § 3(c), 106 Stat. 3568, the Lanham Act defines the term "person" to include "any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity." 15 U.S.C. 1125(a)(2). The 1992 amendment (see § 3(b), 106 Stat. 3567) further provides that state entities "shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter." 15 U.S.C. 1122(a). State defendants are subject to the same remedies, including money damages, as are available in suits against nongovernmental parties. 15 U.S.C. 1122(b).

2. Petitioner College Savings Bank (CSB) markets certificates of deposit (CDs) under the trademark "CollegeSure." The CollegeSure CDs are deposit contracts for financing future college expenses. CSB received a patent for its financing methodology, which is designed to guarantee investors sufficient funds to cover the future costs of tuition for college. See Pet. App. 2a, 29a & n.1.

The Florida legislature created the Florida Prepaid Postsecondary Education Expense Board (Florida Prepaid or Board) as part of a legislative initiative to foster greater educational opportunities at the State's colleges and universities. See Fla. Stat. Ann. § 240.551 (West 1996 & Supp. 1999). Since 1988, the Board has administered the Florida Prepaid Postsecondary Education Expense Program (Program), a tuition-prepayment program available to "qualified beneficiaries" as defined by Florida law. Pet. App. 29a-30a & n.2. Those "qualified beneficiaries" include any student who is a

Florida resident at the time the advance payment contract is formed, as well as any non-resident student who is the child of a non-custodial parent who is a resident of Florida at the time of contract formation. *Id.* at 30a n.2. During the first seven years of its operations, Florida Prepaid accumulated a surplus of more than $184 million. *Id.* at 49a.

CSB filed two separate actions against Florida Prepaid in the United States District Court for the District of New Jersey. In the first suit, CSB alleged that Florida Prepaid had infringed CSB's patent. Pet. App. 28a. The district court rejected Florida Prepaid's Eleventh Amendment challenge to that action, holding that Congress had validly abrogated the Board's immunity from suits for patent infringement pursuant to its powers under Section 5 of the Fourteenth Amendment. *Id.* at 79a-87a. The United States Court of Appeals for the Federal Circuit affirmed that decision. See *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343 (1998) (Pet. App. 95a-120a). This Court granted Florida Prepaid's petition for a writ of certiorari in that case on January 8, 1999, the same day that it granted CSB's petition in the instant case. See *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Savings Bank & United States*, No. 98-531.

The instant case arises out of the second action filed by CSB against Florida Prepaid. In that proceeding, CSB claimed that Florida Prepaid had made false and misleading statements about its own tuition prepayment program in violation of Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a). See Pet. App. 3a, 31a.[1]

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[1] The district court summarized the allegations in CSB's complaint as follows:

> Specifically, CSB alleges that defendant falsely represented the Florida Prepaid program in the following respects: (1) that the State of Florida guarantees all contract beneficiaries to have the full amount necessary to fund a college education at a participating college or university; (2) that any tax liability on a Florida Prepaid contract is deferred until the student reaps the benefits of the contract, *i.e.*, is enrolled at college; (3) that Florida Prepaid's investments are backed by the "full faith and credit" of the United States; and (4) that defendant failed to disclose, in its 1995 Annual Report, the existence of CSB's patent infringement action against it.

Pet. App. 31a (citations omitted).

3. In April 1996, following this Court's decision in *Seminole Tribe* v. *Florida*, 517 U.S. 44 (1996), Florida Prepaid moved to dismiss CSB's Lanham Act claims, asserting that the suit was barred by the Eleventh Amendment. Pet. App. 3a-4a, 39a-40a. The United States intervened to defend the constitutionality of the TRCA provisions (see p. 5, *supra*) that authorize the Lanham Act claims to be brought in federal court. See *id.* at 4a, 40a. The district court ordered the complaint dismissed in its entirety. See *id.* at 91a-92a.[2]

a. The district court first determined that Florida Prepaid is an "arm of the State" of Florida and is therefore entitled to assert the State's Eleventh Amendment immunity. Pet. App. 42a-58a. The court acknowledged that Florida Prepaid had amassed substantial assets with little if any assistance from the State of Florida. *Id.* at 49a. The court observed, however, that any judgment against Florida Prepaid could be paid only through a special legislative appropriation, and it explained that Florida Prepaid's lack of statutory

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[2] As noted above (see p. 6, *supra*), the district court denied Florida Prepaid's motion to dismiss a separate complaint alleging infringement of CSB's patent.

authority to satisfy judgments against it weighed in favor of treating the agency as an arm of the State. *Id.* at 50a-53a. The court noted as well that under Florida law, Florida Prepaid is treated as a state instrumentality and has only those powers specifically conferred by statute. *Id.* at 53a-54a. The court also attached significance to the fact that the Board is composed of four officers of the State of Florida and three additional members appointed by the Governor and confirmed by the state Senate. *Id.* at 55a.

b. The district court next rejected the contention, advanced both by CSB and by the United States, that Florida Prepaid had impliedly waived its Eleventh Amendment immunity from suit in federal court. Pet. App. 60a-73a. CSB and the United States argued that under this Court's decision in *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), a State may be deemed to have waived its Eleventh Amendment immunity if it engages in commercial activity at a time when federal law provides for suit in federal court in cases arising out of that activity. The district court held the *Parden* waiver doctrine inapplicable on its own terms because "Florida Prepaid is performing a role traditionally undertaken by state governments—making available affordable educational benefits." Pet. App. 68a. The court also held that *Parden* had been "overruled by implication" by this Court's decision in *Seminole Tribe*. *Id.* at 72a.

c. Finally, the district court concluded that Section 5 of the Fourteenth Amendment does not authorize Congress to abrogate Florida Prepaid's Eleventh Amendment immunity from suits alleging false advertising in violation of the Lanham Act. Pet. App. 87a-91a. The court reasoned that the "right to be free from false advertising" is not a "property" right within the meaning of the Fourteenth Amendment's Due Process Clause. *Id.* at 89a. Because "the false advertising prong of the Lanham Act does not implicate any of the substantive guarantees of the Fourteenth Amendment," the court stated, it "cannot be the basis for the abrogation of Eleventh Amendment immunity." *Ibid.*

4. The court of appeals affirmed. Pet. App. 1a-27a.

a. The court first held that on the facts of this case, Section 5 of the Fourteenth Amendment does not provide a valid basis for congressional abrogation of Florida Prepaid's Eleventh Amendment immunity. Pet. App. 6a-17a.[3] The court "focus[ed] on the question of whether the TRCA protects a property right recognized under the Fourteenth Amendment." *Id.* at 13a. The court acknowledged that "[t]he tort of unfair competition found in the Lanham Act does protect some intangible property rights," but found that "no such intangible property is involved in the present case." *Id.* at 14a. The court explained that "CSB's Lanham Act claim concerns allegedly false statements about a competitor's own product," and that a "right to be free of false advertising" could not properly be regarded as "an intangible property right protected under the Fourteenth Amendment." *Ibid.* The court concluded that "because this case does not involve a property interest protected by the Fourteenth Amendment, the TRCA, as applied in this case, is an unconstitutional exercise of Congress' powers." *Id.* at 17a.[4]

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[3] In the court of appeals, CSB did not challenge the district court's holding that Florida Prepaid is an "arm of the State" for Eleventh Amendment purposes.

[4] The court of appeals "express[ed] no opinion as to whether the TRCA may be applied constitutionally in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services." Pet. App. 17a.

b. The court of appeals also rejected the contention that Florida Prepaid had waived its Eleventh Amendment immunity by engaging in commercial activities covered by the Lanham Act. Pet. App. 18a-25a. The court explained that

> the *Parden* doctrine holds that a state's Eleventh Amendment immunity can be constructively waived if: (1) Congress enacts a law providing that a state will be deemed to have waived its Eleventh Amendment immunity if it engages in the activity covered by the federal legislation; (2) the law does so through a clear statement that gives notice to the states; (3) a state then engages in that activity covered by the federal legislation; and (4) the activity in question is not an important or core government function.

Id. at 21a. The court acknowledged that "the first three requirements of the *Parden* doctrine have been or will be met" in the instant case. *Ibid.* The court concluded, however, that Florida Prepaid was engaged in a core governmental function because its operation "directly furthers the goal of education by providing a system of financing for college and university education." *Id.* at 22a. Because the court of appeals found the *Parden* waiver doctrine to be inapplicable by its terms, it declined to address the question whether *Parden* was implicitly overruled by this Court's decision in *Seminole Tribe*. *Id.* at 26a-27a.

SUMMARY OF ARGUMENT

1. This Court has repeatedly recognized that a State may waive its Eleventh Amendment immunity and consent to suit in federal court. When Congress unambiguously provides that specified conduct will have the

legal effect of subjecting the States to suit in federal court, and a State thereafter voluntarily elects to engage in that conduct, the State has impliedly waived its Eleventh Amendment immunity. In a variety of contexts, Congress has validly provided that States may obtain the benefits afforded by federal law only if they consent to be sued in federal court.

In *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), this Court held that Congress may condition a State's right to operate a commercial railroad upon the State's amenability to suit in federal court. Although *Parden* has since been qualified in important respects, its core holding remains sound. So long as (1) Congress has unequivocally stated that a State which engages in specified activities will be subject to suit in federal court; and (2) the activities are of a sort that the State can realistically choose to abandon, the State's conduct is properly regarded as a voluntary waiver of Eleventh Amendment immunity.

Both of those requirements are satisfied in the instant case. As amended in 1992, the Lanham Act makes unmistakably clear that state entities operating in interstate commerce are subject to the Act's substantive and remedial provisions in the same manner as their private competitors. And while state governments have historically assumed responsibility for the actual operation of schools, the marketing of investment products of the sort at issue here is neither a traditional nor a necessary means of facilitating the State's educational mission. Florida Prepaid obtains significant beneits from the Lanham Act's fair-competition requireents, and it should not be permitted to invoke its status as a state entity to gain a competitive advantage over other marketers of investment products.

2. Because the TRCA provisions at issue in this case represent a valid exercise of congressional authority to condition a State's participation in commercial activity on a waiver of Eleventh Amendment immunity, this Court need not determine whether those provisions could also be sustained as an exercise of Congress's powers under Section 5 of the Fourteenth Amendment. If the Court does address that question, however, we agree with the court of appeals that a state commercial entity which engages in false and misleading advertising of its own product does not thereby "deprive" a competitor of "property" within the meaning of the Fourteenth Amendment. The "right" to be free of false advertising of that nature does not possess the hallmarks—in particular, the right to exclude others—that are characteristic of property rights. Florida Prepaid's alleged misrepresentations concerning its own products effected no intrusion upon any tangible or intangible interest over which CSB possesses exclusive dominion.

ARGUMENT

I. FLORIDA PREPAID VOLUNTARILY WAIVED ITS ELEVENTH AMENDMENT IMMUNITY FROM SUIT IN FEDERAL COURT UNDER THE LANHAM ACT BY OPERATING A COMMERCIAL ENTERPRISE AND ADVERTISING ITS PRODUCTS IN INTERSTATE COMMERCE

The Eleventh Amendment provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

U.S. Const. Amend. XI. This Court has understood the Amendment as confirming a broad, preexisting principle "that a State will * * * not be subject to suit in federal court unless it has consented to suit." *Blatchford* v. *Native Village of Noatak*, 501 U.S. 775, 779 (1991); accord, *e.g.*, *Seminole Tribe* v. *Florida*, 517 U.S. 44, 54 (1996).

This Court has repeatedly recognized that "if a State waives its immunity and consents to suit in federal court, the Eleventh Amendment does not bar the action." *Atascadero State Hosp.* v. *Scanlon*, 473 U.S. 234, 238 (1985); accord, *e.g.*, *Clark* v. *Barnard*, 108 U.S. 436, 447 (1883) ("The immunity from suit belonging to a State * * * is a personal privilege which it may waive at pleasure."); *Seminole Tribe*, 517 U.S. at 54. The most obvious way in which a State can waive its Eleventh Amendment immunity is by passage of state legislation expressing the State's consent to be sued in federal court. See *Port Auth. Trans-Hudson Corp.* v. *Feeney*, 495 U.S. 299, 306-308 (1990); cf. *Atascadero*, 473 U.S. at 241. As we explain below, however, that is not the only way. When Congress unambiguously provides that specified conduct will have the legal effect of subjecting the States to suit in federal court, and a State thereafter voluntarily elects to engage in that conduct, the State has impliedly waived its Eleventh Amendment immunity.

Congress has unambiguously determined that States and state entities engaged in commercial enterprises should be subject to the fair-competition requirements of the Lanham Act. Congress has further specifically determined that such state entities, like their private competitors, should be subject to suit in federal court for violations of the Act. In the instant case, Florida Prepaid elected to sell and advertise a commercial

investment product in competition with private businesses. Having chosen to engage in that activity, with clear notice of its legal consequences, Florida Prepaid may not claim a constitutional exemption from the rules that bind its competitors.

A. Where Congress Unambiguously Provides That States Engaging In Specified Conduct Will Be Subject To Suit In Federal Court, And A State Thereafter Voluntarily Engages In That Conduct, The State Has Impliedly Waived Its Eleventh Amendment Immunity

In arguing that Florida Prepaid has waived its Eleventh Amendment immunity, CSB principally relies on this Court's decision in *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), which held that a State could be deemed to have waived its immunity from suit in federal court by operating a commercial railroad. Florida Prepaid suggests (see Br. in Opp. 19-27) that this Court's decision in *Parden* is an outlier—a constitutional anomaly. That suggestion is incorrect. Though later decisions have qualified *Parden* in significant respects, its core holding is fully consistent with prevailing Eleventh Amendment doctrine. *Parden* is simply one example of a broader principle, repeatedly recognized by this Court and the federal courts of appeals, that a State may impliedly waive its Eleventh Amendment immunity by voluntarily engaging in conduct that Congress has clearly provided will subject the State to suit in federal court.

1. When Congress legislates pursuant to its powers under the Spending Clause, U.S. Const. Art. I, § 8, Cl. 1, it may condition the acceptance and receipt of federal funds on a State's compliance with conditions that Congress could not impose unilaterally. *South Dakota* v. *Dole*, 483 U.S. 203, 207-211 (1987); see also *New York* v. *United States*, 505 U.S. 144, 167, 171-172 (1992). One such condition may be a waiver of Eleventh Amendment immunity. As the court of appeals explained in *Clark* v. *California*, 123 F.3d 1267 (9th Cir. 1997), cert. denied, 118 S. Ct. 2340 (1998), "[o]ne way for a state to waive its [Eleventh Amendment] immunity is to accept federal funds where the funding statute 'manifest[s] a clear intent to condition participation in the programs funded under the Act on a State's consent to waive its constitutional immunity.'" 123 F.3d at 1271 (quoting *Atascadero*, 473 U.S. at 247).

The court of appeals in *Clark* found that "the Rehabilitation Act manifests a clear intent to condition a state's participation on its consent to waive its Eleventh Amendment immunity." 123 F.3d at 1271. The court relied in part on this Court's characterization of the pertinent Rehabilitation Act of 1973, 29 U.S.C. 701 *et seq.*, provision as "an unambiguous waiver of the States' Eleventh Amendment immunity." *Ibid.* (quoting *Lane* v. *Peña*, 518 U.S. 187, 200 (1996)). The court concluded that "[b]ecause California accepts federal funds under the Rehabilitation Act, California has waived any immunity under the Eleventh Amendment." *Ibid.* See also Kit Kinports, *Implied Waiver After Seminole Tribe*, 82 Minn. L. Rev. 793, 822-832 (1998) (concluding that Congress retains the power to condition the provision of federal funds on a State's agreement to waive its Eleventh Amendment immunity).[5]

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[5] In both *Atascadero* and *Edelman* v. *Jordan*, 415 U.S. 651 (1974), this Court held that the state defendants had not waived their Eleventh Amendment immunity by accepting federal funds. In each of those cases, however, the Court based its decision on the

2. In *Petty* v. *Tennessee-Missouri Bridge Commission*, 359 U.S. 275 (1959), the Court considered an issue of Eleventh Amendment waiver in the context of a bistate entity created pursuant to the Compact Clause, U.S. Const. Art. I, § 10, Cl. 3. Tennessee and Missouri agreed to create the Tennessee-Missouri Bridge Commission and submitted the proposed compact to Congress. The compact signed by the parties provided that the Commission would have the power "to sue and be sued in its own name," *Petty*, 359 U.S. at 277 (quoting Act of Oct. 26, 1949, ch. 758, 63 Stat. 931), but it did not refer specifically to the possibility of suit in federal court. The Act of Congress authorizing the compact, however, contained a proviso stating that nothing in the compact "shall be construed to affect, impair, or diminish any right, power, or jurisdiction * * * of any court * * * of the United States." *Ibid.* (quoting 63 Stat. 930) (emphasis omitted).

The plaintiff in *Petty* filed suit against the Commission pursuant to the Jones Act, 46 U.S.C. App. 688. 359 U.S. at 278. This Court "assume[d] *arguendo* that th[e] suit must be considered as one against the

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fact that the relevant federal funding statute did not make clear that the acceptance of federal money would subject the State to suit in federal court. See *Atascadero*, 473 U.S. at 247 (relevant statute "falls far short of manifesting a clear intent to condition participation in the programs funded under the Act on a State's consent to waive its constitutional immunity"); *Edelman*, 415 U.S. at 672-674. Neither decision suggests that Congress is foreclosed from conditioning federal largesse on a State's waiver of Eleventh Amendment immunity, so long as Congress makes clear to the States that consequence of their decision to accept federal money. Compare *Lane*, 518 U.S. at 198 (explaining that Congress amended the Rehabilitation Act of 1973 in response to *Atascadero* in order "to provide the sort of unequivocal waiver that [the Court's] precedents demand").

States."[6] *Id.* at 279. The Court held, however, that Missouri and Tennessee, by accepting the compact subject to the conditions imposed by Congress, had "waived any immunity from suit which they otherwise might have." *Id.* at 280; see also *id.* at 281-282 ("The States who are parties to the compact by accepting it and acting under it assume the conditions that Congress under the Constitution attached.").

3. The Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, authorizes state commissions to exercise regulatory authority over certain aspects of the telecommunications industry. See, *e.g.*, 47 U.S.C. 252(e) (Supp. II 1996). Where a state commission exercises that authority, "any party aggrieved by [its] determination may bring an action in an appropriate Federal district court" to obtain judicial review of the state commission's decision. 47 U.S.C. 252(e)(6) (Supp. II 1996); see *MCI Telecommunications Corp.* v. *Illinois Commerce Comm'n*, No. 98-2127, 1999 WL 65021, at *5 (7th Cir. Feb. 10, 1999). If the state commission declines to exercise that authority, the Federal Communications Commission (FCC) is required to "issue an order preempting the State commission's jurisdiction" and to "assume the responsibility of the State commission" with respect to the matter in question. 47 U.S.C. 252(e)(5) (Supp. II 1996).

As the Seventh Circuit has explained, "the Act provides state commissions with a realistic and genuine choice whether to involve themselves in the regulatory process * * *, or whether to let the FCC assume

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[6] The Court has since concluded that a Compact Clause entity will not ordinarily be regarded as "one of the United States" for purposes of the Eleventh Amendment. See *Hess* v. *Port Auth. Trans-Hudson Corp.*, 513 U.S. 30, 40-42 (1994).

those functions." *MCI Telecommunications*, at *9. "[B]y electing to assume responsibility for the" pertinent regulatory functions, the court concluded, "the defendants waived the State's immunity from suit in federal court provided by the Eleventh Amendment." *Ibid.* The court explained that:

> [t]here is * * * a fundamental difference between the sort of abrogation that the Supreme Court found constitutionally objectionable in *Seminole Tribe* and the concept of constructive waiver with which we deal in this case. That difference turns on the voluntariness of the state's choice in the waiver situation—a choice between waiving its immunity or foregoing participation in the federal statutory scheme at issue. When Congress gives states a genuine choice, clearly stated, as to whether or not to waive their sovereign immunity, the doctrine of constructive waiver survives *Seminole Tribe*.

Id. at *7 (emphasis added); accord *US West Communications, Inc.* v. *TCG Seattle*, 971 F. Supp. 1365, 1369 (W.D. Wash. 1997), appeal pending, No. 98-35203 (9th Cir.).

4. The Randolph-Sheppard Act, 20 U.S.C. 107 *et seq.*, gives States the choice whether to participate in a joint state-federal scheme that provides employment opportunities for the blind. A state agency that seeks to participate must agree to submit to agency arbitration to resolve any disputes with blind licensees. 20 U.S.C. 107b(6). Federal judicial review of arbitral decisions is available under the Administrative Procedure Act, 5 U.S.C. 551-559, 701-706. 20 U.S.C. 107d-2(a).

In *Premo* v. *Martin*, 119 F.3d 764 (9th Cir. 1997), cert. denied, 118 S. Ct. 1163 (1998), the court of appeals

held that by participating in the Randolph-Sheppard program, a state agency had impliedly waived its Eleventh Amendment immunity from suit in federal court. The court explained that "[a] state will be deemed to have waived its sovereign immunity when (1) the state expressly consents to suit; (2) a state statute or constitution so provides; or (3) Congress clearly intended to condition the state's participation in a program or activity on the state's waiver of immunity." *Id.* at 770. The court reviewed the pertinent statutory provisions and found "overwhelming" evidence that Congress had "conditioned state participation in the Randolph-Sheppard program on consent to federal judicial enforcement of compensatory [arbitral] awards." *Ibid.* The court of appeals therefore concluded that "by agreeing to participate in the Randolph-Sheppard program, states have waived their sovereign immunity to enforcement of such awards in federal court." *Id.* at 771; see also *Tennessee Dep't of Human Servs.* v. *United States Dep't of Educ.*, 979 F.2d 1162, 1166 (6th Cir. 1992) ("A state can waive its immunity explicitly when it opts to participate in a federal program in which Congress clearly has conditioned participation on such a waiver.").

5. The Bankruptcy Code also presents States with a choice, framed expressly in terms of conditional waiver. The Code provides that "[a] governmental unit that has filed a proof of claim in the case is deemed to have waived sovereign immunity with respect to" specified claims. 11 U.S.C. 106(b). The term "governmental unit" is defined to include the States. 11 U.S.C. 101(27). A state creditor is under no compulsion to participate in the bankruptcy proceedings by filing a proof of claim. But if a state entity decides to seek the benefits of participating in the bankruptcy proceeding, it must

accept the consequence imposed by Congress: waiver of its Eleventh Amendment immunity.

In *WJM, Inc.* v. *Massachusetts Department of Public Welfare*, 840 F.2d 996 (1988), the First Circuit relied on *Atascadero* in stating that "Congress *may* effectively condition a state's participation in a federal program on a state's consent to federal jurisdiction, so long as Congress manifests a clear intent to this effect." *Id.* at 1003. The court concluded that former 11 U.S.C. 106(a) (1988)—the predecessor to current Section 106(b) — "manifests such a clear intent." *Ibid.*; accord *In re 995 Fifth Ave. Assocs., L.P.*, 963 F.2d 503, 506-509 (2d Cir.) (applying predecessor version), cert. denied, 506 U.S. 947 (1992). Cf. *Hoffman* v. *Connecticut Dep't of Income Maintenance*, 492 U.S. 96, 101 (1989) (plurality opinion) (noting "narrow scope of waiver[]" in predecessor of Section 106(b)). In *In re Straight*, 143 F.3d 1387 (10th Cir.), cert. denied, 119 S. Ct. 446 (1998), the court of appeals distinguished the "narrow waiver" of Eleventh Amendment immunity contained in Section 106(b) from the abrogation of immunity that was held invalid in *Seminole Tribe*. *Id.* at 1392. The court explained that Section 106(b) was not properly regarded as an abrogation provision because "a state can choose to preserve its immunity by not participating in a bankruptcy proceeding or to partially waive that immunity by filing a claim. The choice is left to the state." *Ibid.* But see *In re Creative Goldsmiths*, 119 F.3d 1140, 1147 (4th Cir. 1997) (stating in dicta that Section 106(b) is unconstitutional under *Seminole Tribe*), cert. denied, 118 S. Ct. 1517 (1998).

B. In Light Of The Unambiguous Provisions Of The TRCA, Florida Prepaid's Operation Of A Commercial Enterprise And Advertisement Of Its Products In Interstate Commerce Constituted An Implied Waiver Of Its Eleventh Amendment Immunity

For the reasons that follow, Florida Prepaid's sale and advertisement of investment products is properly regarded as an implied waiver of its immunity from suit in federal court. That conclusion is consistent with the general principles of implied waiver discussed in Point I.A, *supra*. It is also consistent with this Court's decision in *Parden*. Although subsequent decisions have qualified *Parden* in significant respects, its core holding—that a State's decision to operate a commercial enterprise in competition with private persons may under appropriate circumstances be treated as an implied waiver of Eleventh Amendment immunity—remains sound and controls the present case.

1. The defendant in *Parden* was a railroad owned and operated by the State of Alabama. It was sued for damages by one of its employees pursuant to the Federal Employers' Liability Act (FELA), 45 U.S.C. 51 *et seq.* 377 U.S. at 184. The defendant asserted that under the Eleventh Amendment it was immune from suit in federal court. *Id.* at 185.

This Court acknowledged that under its prior Eleventh Amendment decisions, "an unconsenting State is immune from federal-court suits brought by its own citizens as well as by citizens of another State." 377 U.S. at 186. It observed, however, that "the immunity may of course be waived," and it concluded that

"Alabama has consented to the present suit." *Ibid.* The Court explained:

> It remains the law that a State may not be sued by an individual without its consent. Our conclusion is simply that Alabama, when it began operation of an interstate railroad approximately 20 years after enactment of the FELA, necessarily consented to such suit as was authorized by that Act. By adopting and ratifying the Commerce Clause, the States empowered Congress to create such a right of action against interstate railroads; by enacting the FELA in the exercise of this power, Congress conditioned the right to operate a railroad in interstate commerce upon amenability to suit in federal court as provided by the Act; by thereafter operating a railroad in interstate commerce, Alabama must be taken to have accepted that condition and thus to have consented to suit.

Id. at 192; see also *id.* at 196 ("when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation").

Four Members of the Court dissented. The dissenting opinion began by stating:

> I agree that it is within the power of Congress to condition a State's permit to engage in the interstate transportation business on a waiver of the State's sovereign immunity from suits arising out of such business. Congress might well determine that allowing regulable conduct such as the operation of a railroad to be undertaken by a body legally immune from liability directly resulting from these operations is so inimical to the purposes of its

> regulation that the State must be put to the option of either foregoing participation in the conduct or consenting to legal responsibility for injury caused thereby.

377 U.S. at 198 (White, J., joined by Douglas, Harlan, and Stewart, JJ., dissenting). The Court was thus unanimous in concluding that Congress possesses constitutional authority to condition a State's operation of a commercial railroad on a waiver of immunity from suit in federal court. The dissenting Justices stated, however, that Congress in enacting the FELA had not manifested an "unequivocal determination" to require a waiver of Eleventh Amendment immunity as a condition to state participation in commercial activities, *id.* at 199, and that the Act should therefore be construed not to authorize suits against state defendants, *id.* at 199-200.

The Court's holding in *Parden* has been significantly qualified by two subsequent decisions. In *Employees of the Department of Public Health & Welfare* v. *Department of Public Health & Welfare*, 411 U.S. 279 (1973), the Court held that employees at state hospitals and related institutions could not bring suit in federal court against their state employers under the Fair Labor Standards Act of 1938, 29 U.S.C. 201 *et seq.* 411 U.S. at 282-285. The Court distinguished *Parden* on the ground that the earlier decision "involved the railroad business which Alabama operated 'for profit[,]' * * * in the area where private persons and corporations normally ran the enterprise." *Id.* at 284. Institutions such as hospitals, by contrast, had traditionally been operated by state officials on a nonprofit basis. *Ibid.* The Court noted that *Parden* had involved "a rather isolated state activity," and it declined to extend that

decision in a manner that could potentially affect employees "in every office building in a State's governmental hierarchy." *Id.* at 285. In *Welch* v. *Texas Department of Highways & Public Transportation*, 483 U.S. 468 (1987), the Court held that federal statutes will not be construed to subject the States to suit in federal court absent an unequivocal expression of that intent. *Id.* at 476-478 (plurality opinion); *id.* at 495-496 (Scalia, J., concurring in part and concurring in the judgment). The *Welch* plurality quoted with approval the conclusion of the *Parden* dissenters that "[o]nly when Congress has clearly considered the problem and expressly declared that any State which undertakes given regulable conduct will be deemed thereby to have waived its immunity should courts disallow the invocation of [the Eleventh Amendment] defense." *Id.* at 477 (quoting *Parden*, 377 U.S. at 198-199 (White, J., dissenting)).

2. In the instant case, Florida Prepaid chose to sell and to advertise commercial investment products in competition with private enterprises. The question whether that conduct effected a knowing and voluntary waiver of Eleventh Amendment immunity turns on two subsidiary inquiries. First, a State's conduct can be treated as a knowing waiver of Eleventh Amendment immunity only if Congress has unambiguously provided that a State that engages in such conduct will be subject to suit in federal court. Second, the State's waiver can be regarded as truly voluntary only if the conduct in question involves activities that the State can realistically choose to abandon.

So long as those requirements are satisfied, nothing in *Seminole Tribe* casts doubt upon Congress's ability to condition a State's participation in commercial enterprises on a waiver of Eleventh Amendment immunity.

Seminole Tribe addressed the question "whether Congress has the power to abrogate unilaterally the States' immunity from suit" in federal court. 517 U.S. at 59. The Court held that when Congress acts pursuant to the Commerce Clause, U.S. Const. Art. I, § 8, Cl. 3, "the Eleventh Amendment prevents congressional authorization of suits by private parties against *unconsenting* States." 517 U.S. at 72 (emphasis added). The Court did not suggest that *Parden* was inconsistent with that principle. To the contrary, it cited *Parden* for the "unremarkable, and completely unrelated, proposition that the States may waive their sovereign immunity." *Id.* at 65.

Both of the requirements set forth above are satisfied in the present case.

a. "Unless the state is clearly informed that its actions will result in the loss of immunity [there cannot be] a knowing and voluntary waiver of state sovereign immunity." *Chavez* v. *Arte Publico Press*, 157 F.3d 282, 294 (5th Cir. 1998) (Wisdom, J., dissenting), reh'g en banc granted, No. 93-2881 (Oct. 1, 1998). "Only when Congress has clearly considered the problem and expressly declared that any State which undertakes given regulable conduct will be deemed thereby to have waived its immunity should courts disallow the invocation of [the Eleventh Amendment] defense." *Welch*, 483 U.S. at 477 (plurality opinion) (quoting *Parden*, 377 U.S. at 198-199 (White, J., dissenting)). As the court of appeals in this case correctly recognized, see Pet. App. 21a, the pertinent Lanham Act provisions satisfy that requirement.

As amended by the Trademark Remedy Clarification Act (TRCA), Pub. L. No. 102-542, § 3(c), 106 Stat. 3568, the Lanham Act provides that the "person[s]" subject to the Act include "any State, instrumentality of a State

or employee of a State or instrumentality of a State acting in his or her official capacity." 15 U.S.C. 1125(a)(2). Most significantly, the TRCA added to the Lanham Act a new Section 40(a) (see § 3(b), 106 Stat. 3567), entitled "Waiver of sovereign immunity," which provides:

> Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.

15 U.S.C. 1122(a).[7] That provision constitutes an unequivocal expression of congressional intent that state entities may be sued in federal court for Lanham Act violations. Compare *Lane* v. *Peña*, 518 U.S. 187, 198, 200 (1996).

b. A State does not voluntarily waive its Eleventh Amendment immunity by engaging in activities that it cannot realistically choose to abandon, such as the operation of a police force. By engaging in such activities, "the state has shown no intention, one way or the other, to waive its immunity. The state has merely shown its intent to operate as a state." *Chavez*, 157 F.3d at 294 (Wisdom, J., dissenting). See *Department of Pub. Health & Welfare*, 411 U.S. at 284 (distinguishing the state railroad at issue in *Parden*, which

[7] State defendants are subject to the same remedies, including money damages, as are available in suits against nongovernmental parties. 15 U.S.C. 1122(b).

was run for profit in a field "where private persons and corporations normally ran the enterprise," from state institutions (mental hospitals, cancer hospitals, and training schools for delinquents) that did not operate for profit and that performed functions traditionally undertaken by the States).

The conduct at issue in the present case is genuinely voluntary. The court of appeals concluded that "the *Parden* doctrine of waiver does not apply to the present case" because "[e]ducation is a core function of a state government." Pet. App. 22a. But while state governments have historically assumed responsibility for the actual operation of schools, the marketing of investment products of the sort at issue here is neither a traditional nor a necessary means of facilitating the State's educational mission. Indeed, Florida Prepaid did not commence operations until 1988. Like the railroad in *Parden*, the Board operates "in the area where private persons and corporations normally ran the enterprise." *Department of Pub. Health & Welfare*, 411 U.S. at 284. And while the Florida legislature unquestionably believed that Florida Prepaid would serve the public interest, the Program has also been highly profitable, amassing a surplus of more than $184 million during the first seven years of its operations. Pet. App. 49a. See *Department of Pub. Health & Welfare*, 411 U.S. at 284 (contrasting for-profit railroad involved in *Parden* with nonprofit state hospitals and similar institutions).[8]

[8] Some portions of the Court's opinion in *Parden* suggest that a State may be deemed to have waived its Eleventh Amendment immunity whenever it engages in activities subject to congressional regulation. See, *e.g.*, 377 U.S. at 196 ("when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation"). We do

3. As in many other contexts, Florida Prepaid's waiver of its Eleventh Amendment immunity was a reasonably related price exacted for receiving the benefits afforded by the federal statutory scheme. "The underlying purpose of [the Lanham Act's prohibition against false and misleading statements] is to protect both consumers and competitors from a wide variety of misrepresentations of products and service." *20th Century Wear, Inc.* v. *Sanmark-Stardust, Inc.*, 747 F.2d 81, 91 n.13 (2d Cir. 1984), cert. denied, 470 U.S. 1052 (1985). When it entered the marketplace and advertised its products in interstate commerce, Florida Prepaid obtained significant benefits from the Lanham Act's fair-competition requirements. The Lanham Act serves to deter Florida Prepaid's competitors (including CSB) from engaging in false advertising and other forms of unfair competition. The Act also provides Florida Prepaid with a cause of action for damages in the event that it is injured by a competitor's violation. In addition, the existence of the federal scheme may give all advertisers enhanced credibility in the eyes of the public.

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not rely on so broad a rule. A State will sometimes have no realistic alternative but to engage in activities bearing a sufficient connection to interstate commerce so as to subject them to congressional regulation. To treat the State's participation in such activities as an implied waiver of Eleventh Amendment immunity would effectively eliminate the distinction between waiver and abrogation. See *Pennsylvania* v. *Union Gas Co.*, 491 U.S. 1, 44 (1989) (Scalia, J., concurring in part and dissenting in part). In our view, an implied waiver of Eleventh Amendment immunity may be found only when (1) Congress has unambiguously provided that States engaging in specified conduct will be subject to suit in federal court, and (2) a State's decision to engage in the specified conduct may realistically be deemed a voluntary choice.

When a State chooses to operate a commercial enterprise of a sort traditionally run by private persons, the Eleventh Amendment does not entitle it to invoke its status as a State to gain a competitive advantage. Congress has determined that the Lanham Act's purposes can be fully effectuated only if state entities operating in interstate commerce are subject to the same substantive and remedial provisions as their private competitors. As relevant here, the Act simply makes susceptibility to suit a condition of the State's entry into a commercial market. Having chosen to operate a commercial enterprise well removed from the State's traditional sphere, Florida Prepaid should not be permitted a constitutional exemption from the restrictions that bind its competitors.

4. "The decisions of this Court leave no doubt that a state may, in the public interest, constitutionally engage in a business commonly carried on by private enterprise * * * and compete with private interests engaged in a like activity." *Puget Sound Power & Light Co.* v. *Seattle*, 291 U.S. 619, 624 (1934). The Court has also recognized that where a State acts as a "market participant" in interstate commerce, it may prefer its own citizens over potential buyers and/or sellers from other States, even though the Commerce Clause precludes such favoritism when the State acts in its regulatory capacity. See *White* v. *Massachusetts Council of Constr. Employers, Inc.*, 460 U.S. 204, 206-208 (1983); *Reeves, Inc.* v. *Stake*, 447 U.S. 429, 434-439 (1980); *Hughes* v. *Alexandria Scrap Corp.*, 426 U.S. 794, 804-810 (1976). That rule as respects interstate commerce is based in part on the fact that "state proprietary activities may be, and often are, burdened with the same restrictions imposed on private market participants. Evenhandedness suggests that, when

acting as proprietors, States should similarly share existing freedoms from federal constraints, including the inherent limits of the Commerce Clause." *Reeves*, 447 U.S. at 439 (footnote omitted); *White*, 460 U.S. at 207-208 n.3.

The investment products offered by Florida Prepaid are generally available only to Florida residents and the children of Florida residents. See Pet. App. 30a n.2. That preference is permissible because Florida Prepaid acts as a market participant rather than in the exercise of regulatory authority. Having elected to enjoy the advantages of that status, Florida Prepaid suffers no unconstitutional intrusion on sovereign prerogatives if it is "burdened with the same restrictions"—including susceptibility to suit in federal court—that are "imposed on private market participants." *Reeves*, 447 U.S. at 439.

II. A STATE'S MISREPRESENTATION OF ITS OWN PRODUCT IN OPERATING A BUSINESS DOES NOT DEPRIVE COMPETITORS OF A CONSTITUTIONALLY PROTECTED PROPERTY INTEREST

Because the TRCA provisions at issue in this case represent a valid exercise of congressional authority to condition a State's participation in commercial activity on a waiver of Eleventh Amendment immunity, this Court need not determine whether those provisions could also be sustained as an exercise of Congress's powers under Section 5 of the Fourteenth Amendment. If the Court does address that question, however, we agree with the court of appeals (see Pet. App. 14a) that a state commercial entity which engages in false and misleading advertising of its own product does not thereby "deprive" a competitor of "property" within

the meaning of the Fourteenth Amendment, even if the competitor suffers pecuniary harm as a result of the Lanham Act violation.[9]

This Court has emphasized the importance of identifying with some precision the property interest that lies at the heart of any due process or takings claim. See, *e.g.*, *Bowen* v. *Public Agencies Opposed to Social Security Entrapment*, 477 U.S. 41, 55 (1986). It is clear that some intangible interests—such as debts and other rights to payment—are protected property rights. *Ibid.* Other intangible rights—such as patents and trademarks—are defined by statute as the right to be free from specified conduct by others. See, *e.g.*, 15 U.S.C. 1057(b) (certificate of federally registered mark evidences "the registrant's exclusive right to use the registered mark in commerce"); 35 U.S.C. 154(a)(1) (patent gives its owner "the right to exclude others from making, using, offering for sale, or selling the invention"); 35 U.S.C. 271 (defining infringement); *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 415 (1945) ("That a patent is property, protected against appropriation both by individuals and by government, has long been settled.").

The "right" to be free from false representations concerning a competitor's products, however, bears none of the hallmarks of a property interest.[10] "Property" is

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[9] The position of the United States regarding the scope of congressional enforcement authority under Section 5 will be set forth in other respects in the government's brief in *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Savings Bank & United States*, cert. granted, No. 98-531 (Jan. 8, 1999).

[10] The only provision of the Lanham Act that is alleged to have been violated in this case is the prohibition (see 15 U.S.C. 1125(a)(1)(B)) of false representations concerning the alleged violator's own product. See Pet. App. 3a, 17a. The court of appeals

another way of referring to a particular "bundle of rights." See, *e.g.*, *Kaiser Aetna* v. *United States*, 444 U.S. 164, 176 (1979). The hallmark of a property interest is the right to exclude others. *Ibid.* (cited in *e.g.*, *Dolan* v. *City of Tigard*, 512 U.S. 374, 384 (1994)). Legally recognized intellectual property such as patents, trademarks, copyrights, and trade secrets clearly satisfies that standard. See *Stewart* v. *Abend*, 495 U.S. 207, 220 (1990) ("[a]n author holds a bundle of exclusive rights in the copyrighted work"); *K Mart Corp.* v. *Cartier, Inc.*, 485 U.S. 176, 185-186 (1988) ("Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights."); *Ruckelshaus* v. *Monsanto Co.*, 467 U.S. 986, 1011 (1984) ("With respect to a trade secret, the right to exclude others is central to the very definition of the property interest."); *Hartford-Empire*, 323 U.S. at 412, 415. By contrast, Florida Prepaid's alleged misrepresentations concerning its own products effected no intrusion upon any tangible or intangible interest over which CSB possesses exclusive dominion.

The fact that petitioner claims (Pet. 15) to have suffered a "loss of revenue and profits" as a result of the alleged Lanham Act violation does not alter the foregoing analysis. Petitioner's argument would suggest that every unlawful government action resulting in consequential economic damage to a private person effects a deprivation of property within the meaning of the Due

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therefore properly reserved the question whether the relevant TRCA provisions could be regarded as an appropriate exercise of Congress's Section 5 authority "in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services." *Id.* at 17a. Nor does the case involve palming off one's product as that of a competitor.

Process Clause. This Court's decisions do not support so broad a conception of the scope of "property" interests protected by the Due Process Clause. Cf. *Estelle* v. *Gamble*, 429 U.S. 97 (1976) (medical malpractice claim does not rise to level of Eighth Amendment violation); *Daniels* v. *Williams*, 474 U.S. 327, 330 (1986) (allegation of negligence insufficient to state claim for deprivation of liberty without due process).

CONCLUSION

The judgment of the court of appeals should be reversed and the case remanded for further proceedings.

Respectfully submitted.

SETH P. WAXMAN
Solicitor General
DAVID W. OGDEN
Acting Assistant Attorney General
LAWRENCE G. WALLACE
Deputy Solicitor General
MALCOLM L. STEWART
Assistant to the Solicitor General
MARK B. STERN
MICHAEL E. ROBINSON
H. THOMAS BYRON III
Attorneys

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In the Supreme Court of the United States

OCTOBER TERM, 1998

COLLEGE SAVINGS BANK, PETITIONER

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

SETH P. WAXMAN
Solicitor General
Counsel of Record
DAVID W. OGDEN
Acting Assistant Attorney General
LAWRENCE G. WALLACE
Deputy Solicitor General
MALCOLM L. STEWART
Assistant to the Solicitor General
MARK B. STERN
MICHAEL E. ROBINSON
H. THOMAS BYRON III
Attorneys
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

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QUESTIONS PRESENTED

Section 43(a) of the Lanham Trade-Mark Act, 15 U.S.C. 1125(a), establishes a private right of action for damages against any "person" who engages in false advertising of goods or services in interstate commerce. The Act unambiguously provides that States and state instrumentalities are among the "person[s]" subject to suit in federal court. The questions presented are as follows:

1. Whether the Florida Prepaid Postsecondary Education Expense Board impliedly waived its Eleventh Amendment immunity from suit in federal court by its marketing and sale of prepayment tuition plans.

2. Whether Congress's decision to subject the States to suit in federal court for engaging in the false advertising of commercial products can be sustained as an exercise of congressional power under Section 5 of the Fourteenth Amendment.

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In the Supreme Court of the United States

OCTOBER TERM, 1998

No. 98-149

COLLEGE SAVINGS BANK, PETITIONER

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF FOR THE UNITED STATES

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-27a) is reported at 131 F.3d 353. The opinion of the district court (Pet. App. 28a-92a) is reported at 948 F. Supp. 400. An earlier opinion of the district court in this case is reported at 919 F. Supp. 756.

JURISDICTION

The judgment of the court of appeals was entered on December 5, 1997. A petition for rehearing was denied on February 17, 1998. Pet. App. 93a-94a. On April 21, 1998, Justice Souter extended the time for filing a petition for a writ of certiorari to and including July 17, 1998. The petition was filed on July 17, 1998, and was

granted on January 8, 1999. The jurisdiction of this Court rests on 28 U.S.C. 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

1. The Eleventh Amendment to the United States Constitution provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

2. The Fourteenth Amendment to the United States Constitution provides in relevant part:

> SECTION 1. * * * No State shall * * * deprive any person of life, liberty, or property, without due process of law.
>
> * * * * *
>
> SECTION 5. The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

3. Section 1122 of Title 15, United States Code, provides:

Liability of States, instrumentalities of States, and State officials

(a) Waiver of sovereign immunity

> Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in

> Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.

(b) Remedies

> In a suit described in subsection (a) of this section for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a violation in a suit against any person other than a State, instrumentality of a State, or officer or employee of a State or instrumentality of a State acting in his or her official capacity. Such remedies include injunctive relief under section 1116 of this title, actual damages, profits, costs and attorney's fees under section 1117 of this title, destruction of infringing articles under section 1118 of this title, the remedies provided for under sections 1114, 1119, 1120, 1124 and 1125 of this title, and for any other remedies provided under this chapter.

4. Section 1125(a) of Title 15, United States Code, provides:

Civil action

> (1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which —
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation,

connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capcity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

STATEMENT

1. The Lanham Trade-Mark Act (Lanham Act), 15 U.S.C. 1051 *et seq.*, contains a variety of provisions designed to safeguard the integrity of this country's commercial markets. Section 43(a) of the Act, 15 U.S.C. 1125(a), establishes a private right of action against any "person" who, *inter alia*, "in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. 1125(a)(1)(B).

As amended in 1992, see Trademark Remedy Clarification Act (TRCA), Pub. L. No. 102-542, § 3(c), 106 Stat. 3568, the Lanham Act defines the term "person" to include "any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity." 15 U.S.C. 1125(a)(2). The 1992 amendment (see § 3(b), 106 Stat. 3567) further provides that state entities "shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter." 15 U.S.C. 1122(a). State defendants are subject to the same remedies, including money damages, as are available in suits against nongovernmental parties. 15 U.S.C. 1122(b).

2. Petitioner College Savings Bank (CSB) markets certificates of deposit (CDs) under the trademark "CollegeSure." The CollegeSure CDs are deposit contracts for financing future college expenses. CSB received a patent for its financing methodology, which is designed to guarantee investors sufficient funds to cover the future costs of tuition for college. See Pet. App. 2a, 29a & n.1.

The Florida legislature created the Florida Prepaid Postsecondary Education Expense Board (Florida Prepaid or Board) as part of a legislative initiative to foster greater educational opportunities at the State's colleges and universities. See Fla. Stat. Ann. § 240.551 (West 1996 & Supp. 1999). Since 1988, the Board has administered the Florida Prepaid Postsecondary Education Expense Program (Program), a tuition-prepayment program available to "qualified beneficiaries" as defined by Florida law. Pet. App. 29a-30a & n.2. Those "qualified beneficiaries" include any student who is a

Florida resident at the time the advance payment contract is formed, as well as any non-resident student who is the child of a non-custodial parent who is a resident of Florida at the time of contract formation. *Id.* at 30a n.2. During the first seven years of its operations, Florida Prepaid accumulated a surplus of more than $184 million. *Id.* at 49a.

CSB filed two separate actions against Florida Prepaid in the United States District Court for the District of New Jersey. In the first suit, CSB alleged that Florida Prepaid had infringed CSB's patent. Pet. App. 28a. The district court rejected Florida Prepaid's Eleventh Amendment challenge to that action, holding that Congress had validly abrogated the Board's immunity from suits for patent infringement pursuant to its powers under Section 5 of the Fourteenth Amendment. *Id.* at 79a-87a. The United States Court of Appeals for the Federal Circuit affirmed that decision. See *College Savings Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.*, 148 F.3d 1343 (1998) (Pet. App. 95a-120a). This Court granted Florida Prepaid's petition for a writ of certiorari in that case on January 8, 1999, the same day that it granted CSB's petition in the instant case. See *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Savings Bank & United States*, No. 98-531.

The instant case arises out of the second action filed by CSB against Florida Prepaid. In that proceeding, CSB claimed that Florida Prepaid had made false and misleading statements about its own tuition prepayment program in violation of Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a). See Pet. App. 32a, 31a.[1]

[1] The district court summarized the allegations in CSB's complaint as follows:

> Specifically, CSB alleges that defendant falsely represented the Florida Prepaid program in the following respects: (1) that the State of Florida guarantees all contract beneficiaries to have the full amount necessary to fund a college education at a participating college or university; (2) that any tax liability on a Florida Prepaid contract is deferred until the student reaps the benefits of the contract, *i.e.*, is enrolled at college; (3) that Florida Prepaid's investments are backed by the "full faith and credit" of the United States; and (4) that defendant failed to disclose, in its 1995 Annual Report, the existence of CSB's patent infringement action against it.

Pet. App. 31a (citations omitted).

3. In April 1996, following this Court's decision in *Seminole Tribe* v. *Florida*, 517 U.S. 44 (1996), Florida Prepaid moved to dismiss CSB's Lanham Act claims, asserting that the suit was barred by the Eleventh Amendment. Pet. App. 3a-4a, 39a-40a. The United States intervened to defend the constitutionality of the TRCA provisions (see p. 5, *supra*) that authorize the Lanham Act claims to be brought in federal court. See *id.* at 4a, 40a. The district court ordered the complaint dismissed in its entirety. See *id.* at 91a-92a.[2]

a. The district court first determined that Florida Prepaid is an "arm of the State" of Florida and is therefore entitled to assert the State's Eleventh Amendment immunity. Pet. App. 42a-58a. The court acknowledged that Florida Prepaid had amassed substantial assets with little if any assistance from the State of Florida. *Id.* at 49a. The court observed, however, that any judgment against Florida Prepaid could be paid only through a special legislative appropriation, and it explained that Florida Prepaid's lack of statutory

[2] As noted above (see p. 6, *supra*), the district court denied Florida Prepaid's motion to dismiss a separate complaint alleging infringement of CSB's patent.

authority to satisfy judgments against it weighed in favor of treating the agency as an arm of the State. *Id.* at 50a-53a. The court noted as well that under Florida law, Florida Prepaid is treated as a state instrumentality and has only those powers specifically conferred by statute. *Id.* at 53a-54a. The court also attached significance to the fact that the Board is composed of four officers of the State of Florida and three additional members appointed by the Governor and confirmed by the state Senate. *Id.* at 55a.

b. The district court next rejected the contention, advanced both by CSB and by the United States, that Florida Prepaid had impliedly waived its Eleventh Amendment immunity from suit in federal court. Pet. App. 60a-73a. CSB and the United States argued that under this Court's decision in *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), a State may be deemed to have waived its Eleventh Amendment immunity if it engages in commercial activity at a time when federal law provides for suit in federal court in cases arising out of that activity. The district court held the *Parden* waiver doctrine inapplicable on its own terms because "Florida Prepaid is performing a role traditionally undertaken by state governments—making available affordable educational benefits." Pet. App. 68a. The court also held that *Parden* had been "overruled by implication" by this Court's decision in *Seminole Tribe*. *Id.* at 72a.

c. Finally, the district court concluded that Section 5 of the Fourteenth Amendment does not authorize Congress to abrogate Florida Prepaid's Eleventh Amendment immunity from suits alleging false advertising in violation of the Lanham Act. Pet. App. 87a-91a. The court reasoned that the "right to be free from false advertising" is not a "property" right within the meaning of the Fourteenth Amendment's Due Process Clause. *Id.* at 89a. Because "the false advertising prong of the Lanham Act does not implicate any of the substantive guarantees of the Fourteenth Amendment," the court stated, it "cannot be the basis for the abrogation of Eleventh Amendment immunity." *Ibid.*

4. The court of appeals affirmed. Pet. App. 1a-27a.

a. The court first held that on the facts of this case, Section 5 of the Fourteenth Amendment does not provide a valid basis for congressional abrogation of Florida Prepaid's Eleventh Amendment immunity. Pet. App. 6a-17a.[3] The court "focus[ed] on the question of whether the TRCA protects a property right recognized under the Fourteenth Amendment." *Id.* at 13a. The court acknowledged that "[t]he tort of unfair competition found in the Lanham Act does protect some intangible property rights," but found that "no such intangible property is involved in the present case." *Id.* at 14a. The court explained that "CSB's Lanham Act claim concerns allegedly false statements about a competitor's own product," and that a "right to be free of false advertising" could not properly be regarded as "an intangible property right protected under the Fourteenth Amendment." *Ibid.* The court concluded that "because this case does not involve a property interest protected by the Fourteenth Amendment, the TRCA, as applied in this case, is an unconstitutional exercise of Congress' powers." *Id.* at 17a.[4]

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[3] In the court of appeals, CSB did not challenge the district court's holding that Florida Prepaid is an "arm of the State" for Eleventh Amendment purposes.

[4] The court of appeals "express[ed] no opinion as to whether the TRCA may be applied constitutionally in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services." Pet. App. 17a.

b. The court of appeals also rejected the contention that Florida Prepaid had waived its Eleventh Amendment immunity by engaging in commercial activities covered by the Lanham Act. Pet. App. 18a-25a. The court explained that

> the *Parden* doctrine holds that a state's Eleventh Amendment immunity can be constructively waived if: (1) Congress enacts a law providing that a state will be deemed to have waived its Eleventh Amendment immunity if it engages in the activity covered by the federal legislation; (2) the law does so through a clear statement that gives notice to the states; (3) a state then engages in that activity covered by the federal legislation; and (4) the activity in question is not an important or core government function.

Id. at 21a. The court acknowledged that "the first three requirements of the *Parden* doctrine have been or will be met" in the instant case. *Ibid.* The court concluded, however, that Florida Prepaid was engaged in a core governmental function because its operation "directly furthers the goal of education by providing a system of financing for college and university education." *Id.* at 22a. Because the court of appeals found the *Parden* waiver doctrine to be inapplicable by its terms, it declined to address the question whether *Parden* was implicitly overruled by this Court's decision in *Seminole Tribe*. *Id.* at 26a-27a.

SUMMARY OF ARGUMENT

1. This Court has repeatedly recognized that a State may waive its Eleventh Amendment immunity and consent to suit in federal court. When Congress unambiguously provides that specified conduct will have the

legal effect of subjecting the States to suit in federal court, and a State thereafter voluntarily elects to engage in that conduct, the State has impliedly waived its Eleventh Amendment immunity. In a variety of contexts, Congress has validly provided that States may obtain the benefits afforded by federal law only if they consent to be sued in federal court.

In *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), this Court held that Congress may condition a State's right to operate a commercial railroad upon the State's amenability to suit in federal court. Although *Parden* has since been qualified in important respects, its core holding remains sound. So long as (1) Congress has unequivocally stated that a State which engages in specified activities will be subject to suit in federal court; and (2) the activities are of a sort that the State can realistically choose to abandon, the State's conduct is properly regarded as a voluntary waiver of Eleventh Amendment immunity.

Both of those requirements are satisfied in the instant case. As amended in 1992, the Lanham Act makes unmistakably clear that state entities operating in interstate commerce are subject to the Act's substantive and remedial provisions in the same manner as their private competitors. And while state governments have historically assumed responsibility for the actual operation of schools, the marketing of investment products of the sort at issue here is neither a traditional nor a necessary means of facilitating the State's educational mission. Florida Prepaid obtains significant beneits from the Lanham Act's fair-competition requireents, and it should not be permitted to invoke its status as a state entity to gain a competitive advantage over other marketers of investment products.

2. Because the TRCA provisions at issue in this case represent a valid exercise of congressional authority to condition a State's participation in commercial activity on a waiver of Eleventh Amendment immunity, this Court need not determine whether those provisions could also be sustained as an exercise of Congress's powers under Section 5 of the Fourteenth Amendment. If the Court does address that question, however, we agree with the court of appeals that a state commercial entity which engages in false and misleading advertising of its own product does not thereby "deprive" a competitor of "property" within the meaning of the Fourteenth Amendment. The "right" to be free of false advertising of that nature does not possess the hallmarks—in particular, the right to exclude others—that are characteristic of property rights. Florida Prepaid's alleged misrepresentations concerning its own products effected no intrusion upon any tangible or intangible interest over which CSB possesses exclusive dominion.

ARGUMENT

I. FLORIDA PREPAID VOLUNTARILY WAIVED ITS ELEVENTH AMENDMENT IMMUNITY FROM SUIT IN FEDERAL COURT UNDER THE LANHAM ACT BY OPERATING A COMMERCIAL ENTERPRISE AND ADVERTISING ITS PRODUCTS IN INTERSTATE COMMERCE

The Eleventh Amendment provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

U.S. Const. Amend. XI. This Court has understood the Amendment as confirming a broad, preexisting principle "that a State will * * * not be subject to suit in federal court unless it has consented to suit." *Blatchford* v. *Native Village of Noatak*, 501 U.S. 775, 779 (1991); accord, *e.g.*, *Seminole Tribe* v. *Florida*, 517 U.S. 44, 54 (1996).

This Court has repeatedly recognized that "if a State waives its immunity and consents to suit in federal court, the Eleventh Amendment does not bar the action." *Atascadero State Hosp.* v. *Scanlon*, 473 U.S. 234, 238 (1985); accord, *e.g.*, *Clark* v. *Barnard*, 108 U.S. 436, 447 (1883) ("The immunity from suit belonging to a State * * * is a personal privilege which it may waive at pleasure."); *Seminole Tribe*, 517 U.S. at 54. The most obvious way in which a State can waive its Eleventh Amendment immunity is by passage of state legislation expressing the State's consent to be sued in federal court. See *Port Auth. Trans-Hudson Corp.* v. *Feeney*, 495 U.S. 299, 306-308 (1990); cf. *Atascadero*, 473 U.S. at 241. As we explain below, however, that is not the only way. When Congress unambiguously provides that specified conduct will have the legal effect of subjecting the States to suit in federal court, and a State thereafter voluntarily elects to engage in that conduct, the State has impliedly waived its Eleventh Amendment immunity.

Congress has unambiguously determined that States and state entities engaged in commercial enterprises should be subject to the fair-competition requirements of the Lanham Act. Congress has further specifically determined that such state entities, like their private competitors, should be subject to suit in federal court for violations of the Act. In the instant case, Florida Prepaid elected to sell and advertise a commercial

investment product in competition with private businesses. Having chosen to engage in that activity, with clear notice of its legal consequences, Florida Prepaid may not claim a constitutional exemption from the rules that bind its competitors.

A. Where Congress Unambiguously Provides That States Engaging In Specified Conduct Will Be Subject To Suit In Federal Court, And A State Thereafter Voluntarily Engages In That Conduct, The State Has Impliedly Waived Its Eleventh Amendment Immunity

In arguing that Florida Prepaid has waived its Eleventh Amendment immunity, CSB principally relies on this Court's decision in *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), which held that a State could be deemed to have waived its immunity from suit in federal court by operating a commercial railroad. Florida Prepaid suggests (see Br. in Opp. 19-27) that this Court's decision in *Parden* is an outlier—a constitutional anomaly. That suggestion is incorrect. Though later decisions have qualified *Parden* in significant respects, its core holding is fully consistent with prevailing Eleventh Amendment doctrine. *Parden* is simply one example of a broader principle, repeatedly recognized by this Court and the federal courts of appeals, that a State may impliedly waive its Eleventh Amendment immunity by voluntarily engaging in conduct that Congress has clearly provided will subject the State to suit in federal court.

1. When Congress legislates pursuant to its powers under the Spending Clause, U.S. Const. Art. I, § 8, Cl. 1, it may condition the acceptance and receipt of federal funds on a State's compliance with conditions that Congress could not impose unilaterally. *South Dakota* v. *Dole*, 483 U.S. 203, 207-211 (1987); see also *New York* v. *United States*, 505 U.S. 144, 167, 171-172 (1992). One such condition may be a waiver of Eleventh Amendment immunity. As the court of appeals explained in *Clark* v. *California*, 123 F.3d 1267 (9th Cir. 1997), cert. denied, 118 S. Ct. 2340 (1998), "[o]ne way for a state to waive its [Eleventh Amendment] immunity is to accept federal funds where the funding statute 'manifest[s] a clear intent to condition participation in the programs funded under the Act on a State's consent to waive its constitutional immunity.'" 123 F.3d at 1271 (quoting *Atascadero*, 473 U.S. at 247).

The court of appeals in *Clark* found that "the Rehabilitation Act manifests a clear intent to condition a state's participation on its consent to waive its Eleventh Amendment immunity." 123 F.3d at 1271. The court relied in part on this Court's characterization of the pertinent Rehabilitation Act of 1973, 29 U.S.C. 701 *et seq.*, provision as "an unambiguous waiver of the States' Eleventh Amendment immunity." *Ibid.* (quoting *Lane* v. *Peña*, 518 U.S. 187, 200 (1996)). The court concluded that "[b]ecause California accepts federal funds under the Rehabilitation Act, California has waived any immunity under the Eleventh Amendment." *Ibid.* See also Kit Kinports, *Implied Waiver After Seminole Tribe*, 82 Minn. L. Rev. 793, 822-832 (1998) (concluding that Congress retains the power to condition the provision of federal funds on a State's agreement to waive its Eleventh Amendment immunity).[5]

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[5] In both *Atascadero* and *Edelman* v. *Jordan*, 415 U.S. 651 (1974), this Court held that the state defendants had not waived their Eleventh Amendment immunity by accepting federal funds. In each of those cases, however, the Court based its decision on the

2. In *Petty* v. *Tennessee-Missouri Bridge Commission*, 359 U.S. 275 (1959), the Court considered an issue of Eleventh Amendment waiver in the context of a bistate entity created pursuant to the Compact Clause, U.S. Const. Art. I, § 10, Cl. 3. Tennessee and Missouri agreed to create the Tennessee-Missouri Bridge Commission and submitted the proposed compact to Congress. The compact signed by the parties provided that the Commission would have the power "to sue and be sued in its own name," *Petty*, 359 U.S. at 277 (quoting Act of Oct. 26, 1949, ch. 758, 63 Stat. 931), but it did not refer specifically to the possibility of suit in federal court. The Act of Congress authorizing the compact, however, contained a proviso stating that nothing in the compact "shall be construed to affect, impair, or diminish any right, power, or jurisdiction * * * of any court * * * of the United States." *Ibid.* (quoting 63 Stat. 930) (emphasis omitted).

The plaintiff in *Petty* filed suit against the Commission pursuant to the Jones Act, 46 U.S.C. App. 688. 359 U.S. at 278. This Court "assume[d] *arguendo* that th[e] suit must be considered as one against the

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fact that the relevant federal funding statute did not make clear that the acceptance of federal money would subject the State to suit in federal court. See *Atascadero*, 473 U.S. at 247 (relevant statute "falls far short of manifesting a clear intent to condition participation in the programs funded under the Act on a State's consent to waive its constitutional immunity"); *Edelman*, 415 U.S. at 672-674. Neither decision suggests that Congress is foreclosed from conditioning federal largesse on a State's waiver of Eleventh Amendment immunity, so long as Congress makes clear to the States that consequence of their decision to accept federal money. Compare *Lane*, 518 U.S. at 198 (explaining that Congress amended the Rehabilitation Act of 1973 in response to *Atascadero* in order "to provide the sort of unequivocal waiver that [the Court's] precedents demand").

States."[6] *Id.* at 279. The Court held, however, that Missouri and Tennessee, by accepting the compact subject to the conditions imposed by Congress, had "waived any immunity from suit which they otherwise might have." *Id.* at 280; see also *id.* at 281-282 ("The States who are parties to the compact by accepting it and acting under it assume the conditions that Congress under the Constitution attached.").

3. The Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, authorizes state commissions to exercise regulatory authority over certain aspects of the telecommunications industry. See, *e.g.*, 47 U.S.C. 252(e) (Supp. II 1996). Where a state commission exercises that authority, "any party aggrieved by [its] determination may bring an action in an appropriate Federal district court" to obtain judicial review of the state commission's decision. 47 U.S.C. 252(e)(6) (Supp. II 1996); see *MCI Telecommunications Corp.* v. *Illinois Commerce Comm'n*, No. 98-2127, 1999 WL 65021, at *5 (7th Cir. Feb. 10, 1999). If the state commission declines to exercise that authority, the Federal Communications Commission (FCC) is required to "issue an order preempting the State commission's jurisdiction" and to "assume the responsibility of the State commission" with respect to the matter in question. 47 U.S.C. 252(e)(5) (Supp. II 1996).

As the Seventh Circuit has explained, "the Act provides state commissions with a realistic and genuine choice whether to involve themselves in the regulatory process * * *, or whether to let the FCC assume

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[6] The Court has since concluded that a Compact Clause entity will not ordinarily be regarded as "one of the United States" for purposes of the Eleventh Amendment. See *Hess* v. *Port Auth. Trans-Hudson Corp.*, 513 U.S. 30, 40-42 (1994).

those functions." *MCI Telecommunications*, at *9. "[B]y electing to assume responsibility for the" pertinent regulatory functions, the court concluded, "the defendants waived the State's immunity from suit in federal court provided by the Eleventh Amendment." *Ibid.* The court explained that:

> [t]here is * * * a fundamental difference between the sort of abrogation that the Supreme Court found constitutionally objectionable in *Seminole Tribe* and the concept of constructive waiver with which we deal in this case. That difference turns on the voluntariness of the state's choice in the waiver situation—a choice between waiving its immunity or foregoing participation in the federal statutory scheme at issue. When Congress gives states a genuine choice, clearly stated, as to whether or not to waive their sovereign immunity, the doctrine of constructive waiver survives *Seminole Tribe*.

Id. at *7 (emphasis added); accord *US West Communications, Inc.* v. *TCG Seattle*, 971 F. Supp. 1365, 1369 (W.D. Wash. 1997), appeal pending, No. 98-35203 (9th Cir.).

4. The Randolph-Sheppard Act, 20 U.S.C. 107 *et seq.*, gives States the choice whether to participate in a joint state-federal scheme that provides employment opportunities for the blind. A state agency that seeks to participate must agree to submit to agency arbitration to resolve any disputes with blind licensees. 20 U.S.C. 107b(6). Federal judicial review of arbitral decisions is available under the Administrative Procedure Act, 5 U.S.C. 551-559, 701-706. 20 U.S.C. 107d-2(a).

In *Premo* v. *Martin*, 119 F.3d 764 (9th Cir. 1997), cert. denied, 118 S. Ct. 1163 (1998), the court of appeals

held that by participating in the Randolph-Sheppard program, a state agency had impliedly waived its Eleventh Amendment immunity from suit in federal court. The court explained that "[a] state will be deemed to have waived its sovereign immunity when (1) the state expressly consents to suit; (2) a state statute or constitution so provides; or (3) Congress clearly intended to condition the state's participation in a program or activity on the state's waiver of immunity." *Id.* at 770. The court reviewed the pertinent statutory provisions and found "overwhelming" evidence that Congress had "conditioned state participation in the Randolph-Sheppard program on consent to federal judicial enforcement of compensatory [arbitral] awards." *Ibid.* The court of appeals therefore concluded that "by agreeing to participate in the Randolph-Sheppard program, states have waived their sovereign immunity to enforcement of such awards in federal court." *Id.* at 771; see also *Tennessee Dep't of Human Servs.* v. *United States Dep't of Educ.*, 979 F.2d 1162, 1166 (6th Cir. 1992) ("A state can waive its immunity explicitly when it opts to participate in a federal program in which Congress clearly has conditioned participation on such a waiver.").

5. The Bankruptcy Code also presents States with a choice, framed expressly in terms of conditional waiver. The Code provides that "[a] governmental unit that has filed a proof of claim in the case is deemed to have waived sovereign immunity with respect to" specified claims. 11 U.S.C. 106(b). The term "governmental unit" is defined to include the States. 11 U.S.C. 101(27). A state creditor is under no compulsion to participate in the bankruptcy proceedings by filing a proof of claim. But if a state entity decides to seek the benefits of participating in the bankruptcy proceeding, it must

accept the consequence imposed by Congress: waiver of its Eleventh Amendment immunity.

In *WJM, Inc.* v. *Massachusetts Department of Public Welfare*, 840 F.2d 996 (1988), the First Circuit relied on *Atascadero* in stating that "Congress *may* effectively condition a state's participation in a federal program on a state's consent to federal jurisdiction, so long as Congress manifests a clear intent to this effect." *Id.* at 1003. The court concluded that former 11 U.S.C. 106(a) (1988)—the predecessor to current Section 106(b) — "manifests such a clear intent." *Ibid.*; accord *In re 995 Fifth Ave. Assocs., L.P.*, 963 F.2d 503, 506-509 (2d Cir.) (applying predecessor version), cert. denied, 506 U.S. 947 (1992). Cf. *Hoffman* v. *Connecticut Dep't of Income Maintenance*, 492 U.S. 96, 101 (1989) (plurality opinion) (noting "narrow scope of waiver[]" in predecessor of Section 106(b)). In *In re Straight*, 143 F.3d 1387 (10th Cir.), cert. denied, 119 S. Ct. 446 (1998), the court of appeals distinguished the "narrow waiver" of Eleventh Amendment immunity contained in Section 106(b) from the abrogation of immunity that was held invalid in *Seminole Tribe*. *Id.* at 1392. The court explained that Section 106(b) was not properly regarded as an abrogation provision because "a state can choose to preserve its immunity by not participating in a bankruptcy proceeding or to partially waive that immunity by filing a claim. The choice is left to the state." *Ibid.* But see *In re Creative Goldsmiths*, 119 F.3d 1140, 1147 (4th Cir. 1997) (stating in dicta that Section 106(b) is unconstitutional under *Seminole Tribe*), cert. denied, 118 S. Ct. 1517 (1998).

B. In Light Of The Unambiguous Provisions Of The TRCA, Florida Prepaid's Operation Of A Commercial Enterprise And Advertisement Of Its Products In Interstate Commerce Constituted An Implied Waiver Of Its Eleventh Amendment Immunity

For the reasons that follow, Florida Prepaid's sale and advertisement of investment products is properly regarded as an implied waiver of its immunity from suit in federal court. That conclusion is consistent with the general principles of implied waiver discussed in Point I.A, *supra*. It is also consistent with this Court's decision in *Parden*. Although subsequent decisions have qualified *Parden* in significant respects, its core holding—that a State's decision to operate a commercial enterprise in competition with private persons may under appropriate circumstances be treated as an implied waiver of Eleventh Amendment immunity—remains sound and controls the present case.

1. The defendant in *Parden* was a railroad owned and operated by the State of Alabama. It was sued for damages by one of its employees pursuant to the Federal Employers' Liability Act (FELA), 45 U.S.C. 51 *et seq.* 377 U.S. at 184. The defendant asserted that under the Eleventh Amendment it was immune from suit in federal court. *Id.* at 185.

This Court acknowledged that under its prior Eleventh Amendment decisions, "an unconsenting State is immune from federal-court suits brought by its own citizens as well as by citizens of another State." 377 U.S. at 186. It observed, however, that "the immunity may of course be waived," and it concluded that

"Alabama has consented to the present suit." *Ibid.* The Court explained:

> It remains the law that a State may not be sued by an individual without its consent. Our conclusion is simply that Alabama, when it began operation of an interstate railroad approximately 20 years after enactment of the FELA, necessarily consented to such suit as was authorized by that Act. By adopting and ratifying the Commerce Clause, the States empowered Congress to create such a right of action against interstate railroads; by enacting the FELA in the exercise of this power, Congress conditioned the right to operate a railroad in interstate commerce upon amenability to suit in federal court as provided by the Act; by thereafter operating a railroad in interstate commerce, Alabama must be taken to have accepted that condition and thus to have consented to suit.

Id. at 192; see also *id.* at 196 ("when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation").

Four Members of the Court dissented. The dissenting opinion began by stating:

> I agree that it is within the power of Congress to condition a State's permit to engage in the interstate transportation business on a waiver of the State's sovereign immunity from suits arising out of such business. Congress might well determine that allowing regulable conduct such as the operation of a railroad to be undertaken by a body legally immune from liability directly resulting from these operations is so inimical to the purposes of its

> regulation that the State must be put to the option of either foregoing participation in the conduct or consenting to legal responsibility for injury caused thereby.

377 U.S. at 198 (White, J., joined by Douglas, Harlan, and Stewart, JJ., dissenting). The Court was thus unanimous in concluding that Congress possesses constitutional authority to condition a State's operation of a commercial railroad on a waiver of immunity from suit in federal court. The dissenting Justices stated, however, that Congress in enacting the FELA had not manifested an "unequivocal determination" to require a waiver of Eleventh Amendment immunity as a condition to state participation in commercial activities, *id.* at 199, and that the Act should therefore be construed not to authorize suits against state defendants, *id.* at 199-200.

The Court's holding in *Parden* has been significantly qualified by two subsequent decisions. In *Employees of the Department of Public Health & Welfare* v. *Department of Public Health & Welfare*, 411 U.S. 279 (1973), the Court held that employees at state hospitals and related institutions could not bring suit in federal court against their state employers under the Fair Labor Standards Act of 1938, 29 U.S.C. 201 *et seq.* 411 U.S. at 282-285. The Court distinguished *Parden* on the ground that the earlier decision "involved the railroad business which Alabama operated 'for profit[,]' * * * in the area where private persons and corporations normally ran the enterprise." *Id.* at 284. Institutions such as hospitals, by contrast, had traditionally been operated by state officials on a nonprofit basis. *Ibid.* The Court noted that *Parden* had involved "a rather isolated state activity," and it declined to extend that

decision in a manner that could potentially affect employees "in every office building in a State's governmental hierarchy." *Id.* at 285. In *Welch* v. *Texas Department of Highways & Public Transportation*, 483 U.S. 468 (1987), the Court held that federal statutes will not be construed to subject the States to suit in federal court absent an unequivocal expression of that intent. *Id.* at 476-478 (plurality opinion); *id.* at 495-496 (Scalia, J., concurring in part and concurring in the judgment). The *Welch* plurality quoted with approval the conclusion of the *Parden* dissenters that "[o]nly when Congress has clearly considered the problem and expressly declared that any State which undertakes given regulable conduct will be deemed thereby to have waived its immunity should courts disallow the invocation of [the Eleventh Amendment] defense." *Id.* at 477 (quoting *Parden*, 377 U.S. at 198-199 (White, J., dissenting)).

2. In the instant case, Florida Prepaid chose to sell and to advertise commercial investment products in competition with private enterprises. The question whether that conduct effected a knowing and voluntary waiver of Eleventh Amendment immunity turns on two subsidiary inquiries. First, a State's conduct can be treated as a knowing waiver of Eleventh Amendment immunity only if Congress has unambiguously provided that a State that engages in such conduct will be subject to suit in federal court. Second, the State's waiver can be regarded as truly voluntary only if the conduct in question involves activities that the State can realistically choose to abandon.

So long as those requirements are satisfied, nothing in *Seminole Tribe* casts doubt upon Congress's ability to condition a State's participation in commercial enterprises on a waiver of Eleventh Amendment immunity.

Seminole Tribe addressed the question "whether Congress has the power to abrogate unilaterally the States' immunity from suit" in federal court. 517 U.S. at 59. The Court held that when Congress acts pursuant to the Commerce Clause, U.S. Const. Art. I, § 8, Cl. 3, "the Eleventh Amendment prevents congressional authorization of suits by private parties against *unconsenting* States." 517 U.S. at 72 (emphasis added). The Court did not suggest that *Parden* was inconsistent with that principle. To the contrary, it cited *Parden* for the "unremarkable, and completely unrelated, proposition that the States may waive their sovereign immunity." *Id.* at 65.

Both of the requirements set forth above are satisfied in the present case.

a. "Unless the state is clearly informed that its actions will result in the loss of immunity [there cannot be] a knowing and voluntary waiver of state sovereign immunity." *Chavez* v. *Arte Publico Press*, 157 F.3d 282, 294 (5th Cir. 1998) (Wisdom, J., dissenting), reh'g en banc granted, No. 93-2881 (Oct. 1, 1998). "Only when Congress has clearly considered the problem and expressly declared that any State which undertakes given regulable conduct will be deemed thereby to have waived its immunity should courts disallow the invocation of [the Eleventh Amendment] defense." *Welch*, 483 U.S. at 477 (plurality opinion) (quoting *Parden*, 377 U.S. at 198-199 (White, J., dissenting)). As the court of appeals in this case correctly recognized, see Pet. App. 21a, the pertinent Lanham Act provisions satisfy that requirement.

As amended by the Trademark Remedy Clarification Act (TRCA), Pub. L. No. 102-542, § 3(c), 106 Stat. 3568, the Lanham Act provides that the "person[s]" subject to the Act include "any State, instrumentality of a State

or employee of a State or instrumentality of a State acting in his or her official capacity." 15 U.S.C. 1125(a)(2). Most significantly, the TRCA added to the Lanham Act a new Section 40(a) (see § 3(b), 106 Stat. 3567), entitled "Waiver of sovereign immunity," which provides:

> Any State, instrumentality of a State or any officer or employee of a State or instrumentality of a State acting in his or her official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity for any violation under this chapter.

15 U.S.C. 1122(a).[7] That provision constitutes an unequivocal expression of congressional intent that state entities may be sued in federal court for Lanham Act violations. Compare *Lane* v. *Peña*, 518 U.S. 187, 198, 200 (1996).

b. A State does not voluntarily waive its Eleventh Amendment immunity by engaging in activities that it cannot realistically choose to abandon, such as the operation of a police force. By engaging in such activities, "the state has shown no intention, one way or the other, to waive its immunity. The state has merely shown its intent to operate as a state." *Chavez*, 157 F.3d at 294 (Wisdom, J., dissenting). See *Department of Pub. Health & Welfare*, 411 U.S. at 284 (distinguishing the state railroad at issue in *Parden*, which

[7] State defendants are subject to the same remedies, including money damages, as are available in suits against nongovernmental parties. 15 U.S.C. 1122(b).

was run for profit in a field "where private persons and corporations normally ran the enterprise," from state institutions (mental hospitals, cancer hospitals, and training schools for delinquents) that did not operate for profit and that performed functions traditionally undertaken by the States).

The conduct at issue in the present case is genuinely voluntary. The court of appeals concluded that "the *Parden* doctrine of waiver does not apply to the present case" because "[e]ducation is a core function of a state government." Pet. App. 22a. But while state governments have historically assumed responsibility for the actual operation of schools, the marketing of investment products of the sort at issue here is neither a traditional nor a necessary means of facilitating the State's educational mission. Indeed, Florida Prepaid did not commence operations until 1988. Like the railroad in *Parden*, the Board operates "in the area where private persons and corporations normally ran the enterprise." *Department of Pub. Health & Welfare*, 411 U.S. at 284. And while the Florida legislature unquestionably believed that Florida Prepaid would serve the public interest, the Program has also been highly profitable, amassing a surplus of more than $184 million during the first seven years of its operations. Pet. App. 49a. See *Department of Pub. Health & Welfare*, 411 U.S. at 284 (contrasting for-profit railroad involved in *Parden* with nonprofit state hospitals and similar institutions).[8]

[8] Some portions of the Court's opinion in *Parden* suggest that a State may be deemed to have waived its Eleventh Amendment immunity whenever it engages in activities subject to congressional regulation. See, *e.g.*, 377 U.S. at 196 ("when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation"). We do

3. As in many other contexts, Florida Prepaid's waiver of its Eleventh Amendment immunity was a reasonably related price exacted for receiving the benefits afforded by the federal statutory scheme. "The underlying purpose of [the Lanham Act's prohibition against false and misleading statements] is to protect both consumers and competitors from a wide variety of misrepresentations of products and service." *20th Century Wear, Inc.* v. *Sanmark-Stardust, Inc.*, 747 F.2d 81, 91 n.13 (2d Cir. 1984), cert. denied, 470 U.S. 1052 (1985). When it entered the marketplace and advertised its products in interstate commerce, Florida Prepaid obtained significant benefits from the Lanham Act's fair-competition requirements. The Lanham Act serves to deter Florida Prepaid's competitors (including CSB) from engaging in false advertising and other forms of unfair competition. The Act also provides Florida Prepaid with a cause of action for damages in the event that it is injured by a competitor's violation. In addition, the existence of the federal scheme may give all advertisers enhanced credibility in the eyes of the public.

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not rely on so broad a rule. A State will sometimes have no realistic alternative but to engage in activities bearing a sufficient connection to interstate commerce so as to subject them to congressional regulation. To treat the State's participation in such activities as an implied waiver of Eleventh Amendment immunity would effectively eliminate the distinction between waiver and abrogation. See *Pennsylvania* v. *Union Gas Co.*, 491 U.S. 1, 44 (1989) (Scalia, J., concurring in part and dissenting in part). In our view, an implied waiver of Eleventh Amendment immunity may be found only when (1) Congress has unambiguously provided that States engaging in specified conduct will be subject to suit in federal court, and (2) a State's decision to engage in the specified conduct may realistically be deemed a voluntary choice.

When a State chooses to operate a commercial enterprise of a sort traditionally run by private persons, the Eleventh Amendment does not entitle it to invoke its status as a State to gain a competitive advantage. Congress has determined that the Lanham Act's purposes can be fully effectuated only if state entities operating in interstate commerce are subject to the same substantive and remedial provisions as their private competitors. As relevant here, the Act simply makes susceptibility to suit a condition of the State's entry into a commercial market. Having chosen to operate a commercial enterprise well removed from the State's traditional sphere, Florida Prepaid should not be permitted a constitutional exemption from the restrictions that bind its competitors.

4. "The decisions of this Court leave no doubt that a state may, in the public interest, constitutionally engage in a business commonly carried on by private enterprise * * * and compete with private interests engaged in a like activity." *Puget Sound Power & Light Co.* v. *Seattle*, 291 U.S. 619, 624 (1934). The Court has also recognized that where a State acts as a "market participant" in interstate commerce, it may prefer its own citizens over potential buyers and/or sellers from other States, even though the Commerce Clause precludes such favoritism when the State acts in its regulatory capacity. See *White* v. *Massachusetts Council of Constr. Employers, Inc.*, 460 U.S. 204, 206-208 (1983); *Reeves, Inc.* v. *Stake*, 447 U.S. 429, 434-439 (1980); *Hughes* v. *Alexandria Scrap Corp.*, 426 U.S. 794, 804-810 (1976). That rule as respects interstate commerce is based in part on the fact that "state proprietary activities may be, and often are, burdened with the same restrictions imposed on private market participants. Evenhandedness suggests that, when

acting as proprietors, States should similarly share existing freedoms from federal constraints, including the inherent limits of the Commerce Clause." *Reeves*, 447 U.S. at 439 (footnote omitted); *White*, 460 U.S. at 207-208 n.3.

The investment products offered by Florida Prepaid are generally available only to Florida residents and the children of Florida residents. See Pet. App. 30a n.2. That preference is permissible because Florida Prepaid acts as a market participant rather than in the exercise of regulatory authority. Having elected to enjoy the advantages of that status, Florida Prepaid suffers no unconstitutional intrusion on sovereign prerogatives if it is "burdened with the same restrictions"—including susceptibility to suit in federal court—that are "imposed on private market participants." *Reeves*, 447 U.S. at 439.

II. A STATE'S MISREPRESENTATION OF ITS OWN PRODUCT IN OPERATING A BUSINESS DOES NOT DEPRIVE COMPETITORS OF A CONSTITUTIONALLY PROTECTED PROPERTY INTEREST

Because the TRCA provisions at issue in this case represent a valid exercise of congressional authority to condition a State's participation in commercial activity on a waiver of Eleventh Amendment immunity, this Court need not determine whether those provisions could also be sustained as an exercise of Congress's powers under Section 5 of the Fourteenth Amendment. If the Court does address that question, however, we agree with the court of appeals (see Pet. App. 14a) that a state commercial entity which engages in false and misleading advertising of its own product does not thereby "deprive" a competitor of "property" within

the meaning of the Fourteenth Amendment, even if the competitor suffers pecuniary harm as a result of the Lanham Act violation.[9]

This Court has emphasized the importance of identifying with some precision the property interest that lies at the heart of any due process or takings claim. See, *e.g.*, *Bowen* v. *Public Agencies Opposed to Social Security Entrapment*, 477 U.S. 41, 55 (1986). It is clear that some intangible interests—such as debts and other rights to payment—are protected property rights. *Ibid.* Other intangible rights—such as patents and trademarks—are defined by statute as the right to be free from specified conduct by others. See, *e.g.*, 15 U.S.C. 1057(b) (certificate of federally registered mark evidences "the registrant's exclusive right to use the registered mark in commerce"); 35 U.S.C. 154(a)(1) (patent gives its owner "the right to exclude others from making, using, offering for sale, or selling the invention"); 35 U.S.C. 271 (defining infringement); *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 415 (1945) ("That a patent is property, protected against appropriation both by individuals and by government, has long been settled.").

The "right" to be free from false representations concerning a competitor's products, however, bears none of the hallmarks of a property interest.[10] "Property" is

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[9] The position of the United States regarding the scope of congressional enforcement authority under Section 5 will be set forth in other respects in the government's brief in *Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Savings Bank & United States*, cert. granted, No. 98-531 (Jan. 8, 1999).

[10] The only provision of the Lanham Act that is alleged to have been violated in this case is the prohibition (see 15 U.S.C. 1125(a)(1)(B)) of false representations concerning the alleged violator's own product. See Pet. App. 3a, 17a. The court of appeals

another way of referring to a particular "bundle of rights." See, *e.g.*, *Kaiser Aetna* v. *United States*, 444 U.S. 164, 176 (1979). The hallmark of a property interest is the right to exclude others. *Ibid.* (cited in *e.g.*, *Dolan* v. *City of Tigard*, 512 U.S. 374, 384 (1994)). Legally recognized intellectual property such as patents, trademarks, copyrights, and trade secrets clearly satisfies that standard. See *Stewart* v. *Abend*, 495 U.S. 207, 220 (1990) ("[a]n author holds a bundle of exclusive rights in the copyrighted work"); *K Mart Corp.* v. *Cartier, Inc.*, 485 U.S. 176, 185-186 (1988) ("Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights."); *Ruckelshaus* v. *Monsanto Co.*, 467 U.S. 986, 1011 (1984) ("With respect to a trade secret, the right to exclude others is central to the very definition of the property interest."); *Hartford-Empire*, 323 U.S. at 412, 415. By contrast, Florida Prepaid's alleged misrepresentations concerning its own products effected no intrusion upon any tangible or intangible interest over which CSB possesses exclusive dominion.

The fact that petitioner claims (Pet. 15) to have suffered a "loss of revenue and profits" as a result of the alleged Lanham Act violation does not alter the foregoing analysis. Petitioner's argument would suggest that every unlawful government action resulting in consequential economic damage to a private person effects a deprivation of property within the meaning of the Due

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therefore properly reserved the question whether the relevant TRCA provisions could be regarded as an appropriate exercise of Congress's Section 5 authority "in a case involving a trademark infringement or involving a misrepresentation about a competitor's goods or services." *Id.* at 17a. Nor does the case involve palming off one's product as that of a competitor.

Process Clause. This Court's decisions do not support so broad a conception of the scope of "property" interests protected by the Due Process Clause. Cf. *Estelle* v. *Gamble*, 429 U.S. 97 (1976) (medical malpractice claim does not rise to level of Eighth Amendment violation); *Daniels* v. *Williams*, 474 U.S. 327, 330 (1986) (allegation of negligence insufficient to state claim for deprivation of liberty without due process).

CONCLUSION

The judgment of the court of appeals should be reversed and the case remanded for further proceedings.

Respectfully submitted.

SETH P. WAXMAN
Solicitor General
DAVID W. OGDEN
Acting Assistant Attorney General
LAWRENCE G. WALLACE
Deputy Solicitor General
MALCOLM L. STEWART
Assistant to the Solicitor General
MARK B. STERN
MICHAEL E. ROBINSON
H. THOMAS BYRON III
Attorneys

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In The

Supreme Court of the United States

October Term, 1998

COLLEGE SAVINGS BANK,

Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF FOR RESPONDENT

LOUIS F. HUBENER
Assistant Attorney General
Office of the Attorney General
The Capitol
Tallahassee, FL 32399-1050
(850) 414-3300

Of Counsel to Respondent

WILLIAM B. MALLIN
Counsel of Record
JOSEPH M. RAMIREZ
ECKERT SEAMANS CHERIN & MELLOTT, LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
(412) 566-6000

Attorneys for Respondent

152019

Counsel Press LLC
FORMERLY LUTZ APPELLATE SERVICES
(800) 274-3321 • (800) 359-6859

56PP

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QUESTIONS PRESENTED

1. Does a State deprive a person of property without due process of law if it allegedly engages in false advertising in violation of section 43(a) of the Lanham Act, such that Congress, acting pursuant to section 5 of the Fourteenth Amendment, may abrogate Eleventh Amendment immunity and make the States subject to suit in federal court for Lanham Act violations?

2. Does *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184 (1964), which held that Congress may employ its authority under the Commerce Clause to compel States to "waive" their Eleventh Amendment immunity if they participate in commerce regulated by Congress, survive this Court's decision in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), and apply to claims against a state agency arising out of the State's administration and promotion of a college tuition-funding program?

PARTIES TO THE PROCEEDING

The parties are stated correctly in the "Parties to the Proceeding" on page ii of the Brief for Petitioner.

The Florida legislature has changed Respondent's name from Florida Prepaid Postsecondary Education Expense Board to the Florida Prepaid College Board. This Brief will refer to Respondent as "Florida Prepaid," for the sake of clarity and convenience. Respondent is a body corporate of the State of Florida and does not have any parent or subsidiary corporations. *See* Fla. Stat. § 240.551, J.A. 45.

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COUNTERSTATEMENT OF THE CASE

Respondent Florida Prepaid is an agency of the State of Florida that was created to administer a prepaid college tuition and dormitory-expense program. *See* Fla. Stat. § 240.551, J.A. 45. The principal purpose of the Florida Prepaid program is to enable and encourage the people of Florida to obtain the benefits of higher education at Florida institutions by providing a reliable mechanism for paying college expenses. Participants pay a contract price today that entitles program beneficiaries to college credit hours or dormitory services at a future date. The contract is for guaranteed college services; it is not an investment contract and the beneficiaries do not receive funds. Participation is generally open to Florida residents or the children of Florida residents. *See* Fla. Stat. § 240.551(2)(e)(1)-(3), J.A. 46. The program is a top Florida priority:

> The State considers this an essential governmental operation to assist its citizens to access higher education. All legal and beneficial interests in the assets held by the trust fund are vested in the State for its exclusive benefit and the exclusive benefit of the colleges and universities; therefore, payments are guaranteed to be made on the beneficiary's behalf to the State college or university. Exercise of full benefits under the contract guarantees the beneficiary receipt of services and the beneficiary will not receive any funds.

Florida Prepaid Master Covenant, § 5.08 (Exhibit A to Florida Prepaid Answer to Complaint; *see* J.A. 29, ¶ 16).

The District Court found that Florida Prepaid is an "arm of the State" of Florida and thereby entitled to assert Florida's Eleventh Amendment immunity as a bar to jurisdiction in federal court. *College Savings Bank v. Florida Prepaid Postsecondary*

Education Expense Board, 948 F. Supp. 400 (D.N.J. 1996); *see* Pet. App. at 46a-58a. Neither College Savings Bank nor the United States sought review of that finding before the Court of Appeals.

Petitioner College Savings Bank ("CSB" or "Petitioner") is a commercial financial institution that markets a certificate of deposit product designed to assist customers with investing to cover the costs of a college education. CSB owns a United States patent relating to a calculation methodology used with its certificate of deposit product. In 1994, CSB sued Florida Prepaid for patent infringement in the United States District Court for the District of New Jersey. In 1995, CSB brought a second action against Florida Prepaid in the same court, this time alleging violations of section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The Lanham Act claims relate exclusively to alleged false advertising by Florida Prepaid in its descriptions of its own tuition funding program. There are no allegations of false statements regarding CSB's certificate of deposit product, nor any claims for trademark infringement, trade dress infringement, or other matters covered by the Lanham Act.

After this Court announced its decision in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), Florida Prepaid moved to dismiss both the Lanham Act action and the patent infringement action as barred by the Eleventh Amendment. The United States intervened to defend the constitutionality of the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992) ("the TRCA"), which made the States amenable to suit in federal court for violations of the Lanham Act, and the Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230 (1992), which made the States amenable to suit in federal court for patent infringement. With respect to the TRCA, the United States argued only that Florida Prepaid had lost its Eleventh Amendment immunity to Lanham Act suits via the "constructive

waiver" doctrine of *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184 (1964). CSB argued both that the *Parden* doctrine applied and that the TRCA was constitutional because Congress possessed authority under section 5 of the Fourteenth Amendment to abrogate Eleventh Amendment immunity and permit Lanham Act false advertising suits against the States in federal court.

In a single decision, the District Court granted the motion to dismiss the Lanham Act case but denied the motion to dismiss the patent infringement action. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 948 F. Supp. 400 (D.N.J. 1996), Pet. App. B. In the instant case, both CSB and the United States appealed the dismissal of the Lanham Act suit to the Third Circuit, which affirmed. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 131 F.3d 353 (3d Cir. 1997), *cert. granted*, 67 U.S.L.W. 3433 (1999), Pet. App. A. In the patent infringement case, Florida Prepaid appealed the decision to the United States Court of Appeals for the Federal Circuit, which affirmed. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1355 (Fed. Cir. 1998), *cert. granted*, 67 U.S.L.W. 3433 (1999), Pet. App. D.

SUMMARY OF ARGUMENT

This Court's decision in *Seminole Tribe of Florida v. Florida* established that Congress has no power under Article I of the Constitution to abrogate the States' Eleventh Amendment immunity. That holding means that Congress cannot, when legislating pursuant to the Commerce Clause, make the States amenable to suit in federal court for alleged violations of federal law. Because the Lanham Act, as amended by the TRCA, is unquestionably an exercise of congressional authority under the Commerce Clause, the Court of Appeals properly affirmed the

District Court's dismissal of CSB's Lanham Act-based false advertising claim against Florida Prepaid.

Although Congress does have power under section 5 of the Fourteenth Amendment to abrogate Eleventh Amendment immunity in appropriate cases, not every legislative act under Article I can be justified as an exercise of Fourteenth Amendment enforcement authority. As this Court held in *City of Boerne v. Flores*, 521 U.S. 507 (1997), abrogation pursuant to the Fourteenth Amendment must be restricted to legitimate congressional efforts to enforce the substantive guarantees of that amendment — there must be a constitutional wrong Congress seeks to remedy or prevent. In particular, the concept of "property" under the Fourteenth Amendment cannot be made so elastic that it becomes the proxy for every statutory right or interest created by Congress under the Commerce Clause, such as a false advertising claim brought under the Lanham Act. Finding Fourteenth Amendment abrogation authority to be coextensive with congressional power under Article I, as CSB demands, would nullify *Seminole Tribe*, defy *City of Boerne*, and virtually eliminate the Eleventh Amendment.

This Court has never suggested that a business's statutory right under the Lanham Act to be free of a competitor's false advertising about the competitor's own product constitutes "property" for purposes of the Fourteenth Amendment. Recognizing such a statutory interest as a constitutionally protected property right would essentially federalize much of the common law of tort and contract, and would subject States to litigation in federal court every time a governmental action is alleged to affect a privately owned business. Florida Prepaid agrees with the United States that the concept of property embodied in the Fourteenth Amendment simply does not extend to attenuated interests of the type asserted by CSB.

Even assuming that the interest in being free of false advertising could constitute a legitimate property right for purposes of the Fourteenth Amendment, CSB has failed to demonstrate that the State of Florida has deprived it of such property without due process of law. The denial of due process, not the mere deprivation of property, is necessary to justify a remedial scheme that includes the abrogation of Eleventh Amendment immunity. States already provide common law remedies for unfair competition, and state courts also have concurrent jurisdiction to adjudicate claims arising under the Lanham Act. Florida, like many States, permits "takings" claims to be brought against the State in state court, and also has enacted a limited statutory waiver of its sovereign immunity for tort claims brought against the State in its own courts. Thus, Florida provides adequate legal process to redress any deprivation of property that may have occurred in CSB's case or in similar unfair competition cases. The TRCA is therefore unconstitutional under the rule of *City of Boerne*, because the TRCA purports to provide a remedy — suits against the States in federal court — for a nonexistent constitutional harm — the supposed denial of due process by States that allegedly have deprived persons of property through false advertising.

Accordingly, congressional abrogation of Florida Prepaid's Eleventh Amendment immunity cannot be justified as an exercise of Fourteenth Amendment enforcement power.

Nor may jurisdiction over Florida Prepaid be maintained through application of the constructive waiver doctrine of *Parden v. Terminal Railway of Alabama Docks Department*, which provided that Congress could require a State to "waive" Eleventh Amendment immunity as the price of engaging in commercial activity subject to federal legislative control. The *Parden* doctrine cannot be applied here because *Parden* itself directly conflicts with *Seminole Tribe*, and therefore should be formally overruled. Congress should not be permitted to do indirectly, by means of

a compulsory waiver doctrine, what it no longer can do directly after *Seminole Tribe*. *Parden* was squarely based on congressional abrogation authority assumed to exist under the Commerce Clause. Now that the *Seminole Tribe* has made clear that congressional authority under Article I does not include the power to curtail Eleventh Amendment immunity, *Parden* is bereft of support, and cannot justify CSB's suit against Florida Prepaid.

Even if *Parden* somehow remains good law, it does not apply to the activities of Florida Prepaid here. As the Court of Appeals correctly found, Florida Prepaid engages in the core governmental function of furthering the education of its citizens by providing a service that enables state residents to attend college or university. Mischaracterizing this activity as a money-making or commercial endeavor turns a blind eye to the realities of this non-profit education program as well as to the increasingly creative strategies that state governments must employ in order to discharge their primary responsibility of securing the well-being of their citizens. Florida Prepaid's education-financing activities are essentially governmental, not commercial, and therefore *Parden* is inapplicable.

Finally, resort to *Parden* also fails because the TRCA does not regulate prepaid tuition programs and is therefore incapable of triggering a *Parden* waiver of immunity. The Lanham Act, as amended by the TRCA, regulates *all* interstate commerce, and therefore does not alert States to the loss of their Eleventh Amendment immunity as a consequence of operating prepaid tuition programs. The TRCA notifies States only that they have no immunity if they are alleged to have violated the Lanham Act — a warning that is far too broad and vague to satisfy *Parden*.

ARGUMENT

I. THE COURT OF APPEALS CORRECTLY APPLIED *SEMINOLE TRIBE v. FLORIDA* AND *CITY OF BOERNE v. FLORES* IN HOLDING THAT CONGRESSIONAL AUTHORIZATION OF SUITS AGAINST THE STATES IN FEDERAL COURT ON FALSE ADVERTISING CLAIMS CANNOT BE JUSTIFIED AS AN EXERCISE OF FOURTEENTH AMENDMENT ENFORCEMENT POWER.

The decision of the Court of Appeals is manifestly correct. The tightly confined holding is consistent with this Court's precedents regarding the Eleventh and Fourteenth Amendments. In contrast, CSB asks this Court to adopt a sweeping theory of property rights and Fourteenth Amendment enforcement power that the Court of Appeals properly rejected, and that even the United States, which intervened in this litigation in order to defend the TRCA, has declared unfounded.

A. The Statutory Right To Be Free Of A Competitor's False Advertising Is Not "Property" That Congress May Protect Under Section 5 Of The Fourteenth Amendment.

(1) In *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), this Court held that Congress has no power under the Indian Commerce Clause or the Interstate Commerce Clause to abrogate the Eleventh Amendment immunity enjoyed by the States. As the Court of Appeals recognized, the holding of *Seminole Tribe* is squarely applicable here. The Lanham Act represents an exercise of congressional power under the Interstate Commerce Clause. *See, e.g., Trade-Mark Cases*, 100 U.S. 82, 94-96 (1879) (stating that congressional power to provide trademark protection can arise only from the power to regulate interstate commerce). Thus, claims brought under the Lanham Act against a State or state agency in federal court pursuant to the TRCA must be dismissed as barred by the Eleventh Amendment.

To overcome this limitation on congressional power and rescue the TRCA from unconstitutionality, CSB argues that the TRCA can be treated as an exercise of Congress's enforcement power under section 5 of the Fourteenth Amendment. This argument requires that a person's interest in being free from the type of false advertising alleged here be deemed a "property" right, so that section 5 of the Fourteenth Amendment may be triggered. Indeed, according to CSB, because a "business" is a form of property, any state action that affects that business in any way is a potential impingement upon property that Congress may remedy or deter under section 5. *See* Brief for Petitioner at 19-20. The Eleventh Amendment, it would appear, simply has no force where a "business" is concerned.

After *Seminole Tribe*, however, close scrutiny must be applied to any contention that a particular congressional attempt to abrogate Eleventh Amendment immunity legitimately exercises Fourteenth Amendment power. *Seminole Tribe* makes it perfectly plain that Congress enjoys no power to abrogate Eleventh Amendment immunity under *any* provision of Article I of the Constitution. Congressional enforcement power under section 5 of the Fourteenth Amendment, which applies only to the substantive provisions of that Amendment, should not be improperly converted into a replacement for the entirety of Article I. Congress is not free to transform exercises of Article I power into applications of Fourteenth Amendment enforcement authority simply because the Fourteenth Amendment is Congress's only remaining source of power to abrogate the Eleventh Amendment. Judicial recognition of such pretextual invocations of Fourteenth Amendment power would flout the rule of *Seminole Tribe* and would eviscerate the Eleventh Amendment. "The need to promote the supremacy of federal law must be accommodated to the constitutional immunity of the States." *Idaho v. Coeur d'Alene Tribe of Idaho*, 521 U.S. 261, 278 (1997) (quoting *Pennhurst State School & Hospital v. Halderman*, 465 U.S. 89, 105 (1984)).

A notable law review commentary has explained the jeopardy to the Eleventh Amendment created by unjustified congressional reliance on Fourteenth Amendment authority to protect congressionally created rights:

> In *Seminole Tribe*, the Court held that Congress has the power to abrogate Eleventh Amendment immunity pursuant to its power to enforce the Fourteenth Amendment, but not under its Article I legislative power. The Fourteenth Amendment, however, includes a clause prohibiting states from depriving persons of property without due process of law. Can Congress pass a statute giving individuals a property right vis-a-vis the states and then, to "enforce" the Due Process Clause, abrogate the states' Eleventh Amendment immunity with respect to suits to enforce that right? An affirmative answer to this question threatens to reduce *Seminole Tribe*'s abrogation holding to nothing. . . . If this reasoning were to hold, then Congress's power to abrogate Eleventh Amendment immunity would appear to be coextensive with its power to legislate under Article I, and, if so, *Seminole Tribe*'s holding that Congress lacks the power to abrogate Eleventh Amendment immunity under Article I would be eviscerated.

Carlos Manuel Vazquez, *What Is Eleventh Amendment Immunity?*, 106 Yale L.J. 1683, 1744-46 (1997); *see also* Henry Paul Monaghan, *Comment: The Sovereign Immunity "Exception,"* 110 Harv. L. Rev. 102, 126 n.162 (1996) ("Whether the *Seminole Tribe* majority would permit so transparent an evisceration of its holdings is unclear."). Here, the Court of Appeals properly declined CSB's invitation to "eviscerate" the Eleventh Amendment. In so doing, the Third Circuit followed the teachings of this Court on both Eleventh Amendment and Fourteenth Amendment issues.

There is no historical tradition linking the Lanham Act and the Fourteenth Amendment. The Lanham Act always has been regarded as an exercise of the power to regulate commerce.[1] The legislative history of the TRCA, which amended the Lanham Act to permit suits against the States in federal court, contains only a passing reference to the Fourteenth Amendment as a source of authority for congressional abrogation of immunity for trademark infringement suits, *see* S. Rep. No. 102-280 (May 12, 1992), at 7-8, and is completely silent with respect to the *false advertising* prong of the Lanham Act, which is all that is involved here. Thus, there is no direct support for the view that Congress intended to use its Fourteenth Amendment power to permit suits against the States in federal courts on federal unfair competition claims.

Of course, Congress's declarations of the sources of its authority do not by themselves render legislation constitutional. *See, e.g., Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948). Accordingly, the brief mention of the Fourteenth Amendment in the legislative history does not convert the TRCA into an *appropriate* exercise of Fourteenth Amendment enforcement authority with respect to claims under the Lanham Act. *See Oregon v. Mitchell*, 400 U.S. 112, 129 (1970); *Ex Parte*

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1. The legislative history of the Lanham Act states:

> Marks used in interstate commerce are properly the subject of Federal regulation. It would seem as if national legislation along national lines securing to the owners of trade-marks in interstate commerce definite rights should be enacted and should be enacted now. There can be no doubt under the recent decisions of the Supreme Court of the constitutionality of a national act giving substantive as distinguished from merely procedural rights in trade-marks in commerce over which Congress has plenary power.

S. Rep. No. 1333 (May 14, 1946), at 1277.

Virginia, 100 U.S. 339, 345-46 (1879). This Court retains the ultimate responsibility for determining whether a given enactment is a legitimate exercise of Fourteenth Amendment power. *See generally City of Boerne v. Flores*, 521 U.S. 507 (1997).

Fitzpatrick v. Bitzer, 427 U.S. 445 (1976), where this Court first announced the doctrine that Congress may abrogate Eleventh Amendment immunity pursuant to the Fourteenth Amendment, did not directly answer the question of how to identify appropriate Fourteenth Amendment enforcement action. There was no need to do so in that case, because the issue was not in dispute in *Fitzpatrick*, a Title VII case that clearly implicated core Fourteenth Amendment concerns. *See* 427 U.S. at 453 n.9. The *Fitzpatrick* Court nevertheless emphasized that the purpose of section 5 is to enforce the guarantees of the Fourteenth Amendment. *See id.* at 453-56. If, as here, the protections of the Fourteenth Amendment are completely inapposite to the legislation in question, the statute cannot be considered an appropriate exercise of Fourteenth Amendment authority.

This Court recently confirmed that Congress's power under section 5 of the Fourteenth Amendment is remedial, not substantive, in *City of Boerne v. Flores*. "Any suggestion that Congress has a substantive, non-remedial power under the Fourteenth Amendment is not supported by our case law." 521 U.S. at 527. Congress may enforce the guarantees of the Fourteenth Amendment as they have been interpreted by the courts, but Congress may not extend or reinterpret those protections:

> If Congress could define its own powers by altering the Fourteenth Amendment's meaning, no longer would the Constitution be "superior paramount law, unchangeable by ordinary means."

> . . . Under this approach, it is difficult to conceive of a principle that would limit congressional power.

Id. at 529 (quoting *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 177 (1803)). When Congress acts under section 5,

> there must be a congruence and proportionality between the injury to be prevented or remedied and the means adopted to that end. Lacking such a connection, legislation may become substantive in operation and effect.

521 U.S. at 520.

(2) Notwithstanding *City of Boerne*, CSB argues that the TRCA does rest on the enforcement authority of the Fourteenth Amendment because the Act was intended to protect "property." As applied to the Lanham Act claims asserted here, however, CSB's argument fails because this case does not directly involve any kind of property. The Lanham Act claims brought against Florida Prepaid are complaints about alleged false advertising. An interest in being free of false advertising simply does not qualify as a property right for purposes of the due process clause of the Fourteenth Amendment. "A false advertising claim implicates the Lanham Act's purpose of preventing unfair competition," *Stanfield v. Osborne Industries*, 52 F.3d 867, 873 (10th Cir.), *cert. denied*, 516 U.S. 920 (1995), but does not implicate the substantive guarantees of the Fourteenth Amendment, and therefore cannot be the basis for the abrogation of Eleventh Amendment immunity.

CSB refers the Court to cases discussing the Lanham Act's general protection of "property rights." *See* Brief for Petitioner at 15-17. None of these cases, however, holds that a *false advertising claim* constitutes a property right, let alone a right

that may be enforced via the Fourteenth Amendment. Florida Prepaid is accused of nothing more than making misrepresentations about *its own* tuition payment program. CSB's interest in opposing such statements may create a right of action under the Lanham Act, but does not create a property right in such opposition.[2] *See Paul v. Davis*, 424 U.S. 693, 712 (1976) (holding that some intangible rights, such as a person's reputation, do not qualify as property protected by the Fourteenth Amendment.).

According to CSB, the tort of unfair competition, "by definition," protects property interests. Brief for Petitioner at 15. Virtually every conceivable tort, however, relates in some fashion to either property interests or personal interests. If these interests, merely because they are "protected" by tort law, are deemed to constitute property or liberty rights subject to Fourteenth Amendment guarantees, then under CSB's analysis Congress would have the authority to make the States amenable to suit in federal court on any common law tort, as long as it had been "federalized" through legislation. *See* Brief for Petitioner at 16 ("[T]he Fourteenth Amendment, by affording protection to 'property,' by its terms extends to the tort of unfair

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2. The Court of Appeals properly rejected CSB's reliance on *International News Service v. Associated Press*, 248 U.S. 215 (1918). *See* Pet. App. at 15a n.4. *International News* was not a constitutional case and did not involve any attempt to determine the parameters of the Fourteenth Amendment. The Court simply noted,

> In order to sustain the jurisdiction of equity over the controversy, we need not affirm any general and absolute property in the news as such. The rule that a court of equity concerns itself only in the protection of property rights treats any civil right of a pecuniary nature as a property right. . . .

248 U.S. at 236 (citations omitted). Clearly, the Fourteenth Amendment does not embrace such an expansive definition of property.

competition."). This would make federal courts the forum of choice for business torts alleged against States. The Court of Appeals understood the implications of CSB's extreme position, and rightly rejected CSB's argument. *See Paul v. Davis*, 424 U.S. at 699 (criticizing premise "that the Due Process Clause and § 1983 make actionable many wrongs inflicted by government employees which had heretofore been thought to give rise only to state-law tort claims").

CSB relies heavily on the notion that a "business" is a property right. That is not in dispute. Florida Prepaid agrees that a business constitutes property, but that is not the question before the Court. The real question is whether every state action that affects a business negatively can be considered a potential deprivation of property without due process of law within the meaning of the Constitution. The answer to this question must be "No." This Court has never held that the Due Process Clause of the Fourteenth Amendment protects the right to be free in one's business from a competitor's false advertising if the alleged false advertising comes from a state actor. The connection between such conduct and a genuine, protected property right is simply too tenuous. Thus, even an unequivocal congressional attempt to constitutionalize causes of action for false advertising would fail to pass muster under the rule of *City of Boerne*. Congress lacks the authority to craft its own applications of the Due Process Clause, particularly where the resulting remedial scheme imposes "a heavy litigation burden on the States" and "contradicts vital principles necessary to maintain separation of powers and the federal balance." *City of Boerne*, 521 U.S. at 534, 536.

In *Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170 (1934), the Court observed that "[t]he Fourteenth Amendment does not protect a business against the hazards of competition." The Court of Appeals correctly relied on this decision in rejecting CSB's arguments. *See* Pet. App. at 16a. Petitioner retorts that it

"does not seek protection from the hazards of lawful competition from Florida Prepaid, but rather protection against unfair competition in the form of false and deceptive statements . . . ." Brief for Petitioner at 32. CSB's response misses the point. Even unfair competition is merely a form of competition. It is part of the rough and tumble of the economic world that all competitors expect to encounter occasionally, just as every company expects to deal with a breached contract on occasion. The common law has developed remedies for certain types of unfair competition, just as it has for other torts and for breaches of contract, and federal and state statutes have been enacted to augment the common law protections. None of this remedial law, ancient or modern, changes the fact that the competitive tort of false advertising is different in kind from an actual state-sponsored taking of property. CSB's theory of property improperly grants Congress the power via the Fourteenth Amendment to federalize challenges to state conduct amounting to simple torts and breaches of contract.[3]

CBS argues that Florida Prepaid has adopted the "radical" view that Congress may not rely on its section 5 enforcement

3. Tellingly, CSB's expansive theory of business torts and the Fourteenth Amendment should have compelled a different result in *Seminole Tribe* itself. The CSB logic is inexorable: A casino is a business; therefore, the right to operate a casino is a property right with which the State may not "interfere" without violating the Fourteenth Amendment. If the State of Florida, in alleged violation of a federal statute, refuses to negotiate a gaming compact with an Indian tribe, thus "interfering" with the Tribe's right to operate a casino, the Tribe may sue the State in federal court. The result is that the Eleventh Amendment is swept away by the Fourteenth. This syllogism is every bit as plausible as CSB's argument here, but obviously was not applied in *Seminole Tribe*. The Court of Appeals for the Eleventh Circuit rejected a more narrowly conceived Fourteenth Amendment argument in *Seminole Tribe*. *Seminole Tribe of Florida v. Florida*, 11 F.3d 1016, 1025 (11th Cir. 1994), *aff'd*, 517 U.S. 44 (1996). The Tribe did not press the argument before this Court.

power to abrogate the Eleventh Amendment in order to protect rights created by Congress under Article I. *See, e.g.*, Brief for Petitioner at 22-23. Actually, this view follows from the holding of *Seminole Tribe*, as Florida Prepaid explains in detail in the Brief for Petitioner in No. 98-531.[4] In order to affirm the judgment of the Third Circuit here, however, this Court need hold only: (a) that Article I rights do not qualify for protection under the Fourteenth Amendment simply because they might be labeled "property"; or (b) that a claim that a property right protected under the Fourteenth Amendment has been taken without due process of law requires more than the bald assertion that a business is property; or (c) that enforcement action undertaken to protect legitimate property rights still must satisfy the "proportionality and congruence" test of *City of Boerne*. The Court of Appeals adopted essentially this view in rejecting CSB's contentions. *See* Pet. App. at 16a ("If a state's conduct impacting on a business always implicated the Fourteenth Amendment, Congress would have almost unrestricted power to subject States to suit through the exercise of its abrogation power.").

The United States intervened in this action in order to defend the constitutionality of the TRCA against Florida Prepaid's challenge. The only argument that the United States has made on behalf of CSB's position, however, is that Florida Prepaid should be deemed to have constructively waived its Eleventh Amendment immunity. *See infra* part II. On the Fourteenth Amendment issue, the United States acknowledges that "[t]he 'right' to be free from false representations concerning a competitor's products . . . bears none of the hallmarks of a property interest." Brief for U.S. at 31 (footnote omitted). Florida Prepaid agrees. What CSB simply fails to recognize is that

4. This proper reading of *Seminole Tribe* makes clear that neither the TRCA nor the Patent Remedy Clarification Act can be justified as an appropriate exercise of Congress's Fourteenth Amendment enforcement power.

merely because a tort can cause harm to property does not mean that the nonoccurrence of the tort — the "right" to be free of the interference — is itself property. *See Bowen v. Public Agencies Opposed to Social Security Entrapment*, 477 U.S. 41, 55 (1986) ("[T]he 'contractual right' at issue in this case bears little, if any, resemblance to rights held to constitute 'property' within the meaning of the Fifth Amendment.").

This case simply does not involve property that Congress may protect under the Fourteenth Amendment. Congress has no power, under the Fourteenth Amendment or any other provision of the Constitution, to strip the States of their Eleventh Amendment immunity and subject them to suits for false advertising. To hold otherwise would be to dismiss the Eleventh Amendment altogether. The question is not whether property rights may be bifurcated into those that are protected by the Fourteenth Amendment and those that are not. The real question is whether simply labeling an interest as "property" automatically confers upon Congress the power to enforce such interests against the States without regard for the Eleventh Amendment. The Court of Appeals has answered that question correctly: No.[5]

5. The Court of Appeals limited its decision to the case before it, which involves only allegations that a state actor has engaged in false advertising by misleadingly describing its own products. CSB criticizes that limitation by insisting that there is "no principled distinction" between misrepresentations concerning one's own product and misrepresentations concerning a competitor's product. Brief for Petitioner at 33. Although it is Florida Prepaid's view that neither type of misrepresentation can be deemed a deprivation of property in violation of due process, the Court of Appeals plainly acted appropriately in rendering a narrow decision.

B. Neither Florida Nor Any Other State Has Been Shown To Have Violated The Constitution By Denying Due Process Of Law To Persons Alleging The Deprivation Of Property Caused By The State's False Advertising.

The Fourteenth Amendment provision at issue here is a specific proscription of the deprivation of property by States *without due process of law.* The mere deprivation of property, without the denial of due of process of law, does not amount to a constitutional violation. *See, e.g., Parratt v. Taylor*, 451 U.S. 527, 537 (1981), *overruled in part on other grounds by Daniels v. Williams*, 474 U.S. 327 (1984). As the Court stated in *Parratt*:

> The Fourteenth Amendment protects only against deprivations "without due process of law." . . . Our inquiry therefore must focus on whether the respondent has suffered a deprivation of property without due process of law.

Id. at 537 (citation omitted); *see also Zinermon v. Burch*, 494 U.S. 113, 126 (1990); *Hudson v. Palmer*, 468 U.S. 517, 533 (1984).

Nowhere in the Brief for Petitioner does CSB explain how the State of Florida has deprived it of property without due process of law. In its arguments, CSB typically defines the issues before the Court to focus solely on the question of the definition of property and to exclude any consideration of the remaining factors in a due process analysis. For example, CSB insists:

> The specific issue presented by this case is whether false and deceptive advertising implicates a business property right protected by the Fourteenth Amendment. The more fundamental constitutional issue presented by this case, as it relates to the power of Congress under Section 5 of the Fourteenth Amendment, is whether the Fourteenth Amendment applies to all liberty and property rights.

Brief for Petitioner at 25-26. CSB simply ignores the questions of actual deprivation of property and of the denial of due process of law.

As to due process, it is quite clear that CSB has not been and will not be denied due process of law by the State of Florida, even if one accepts CSB's theory that the tort of false advertising can constitute a deprivation of property within the meaning of the Fourteenth Amendment. Florida has enacted a general waiver of sovereign immunity for suits brought in state court in order to permit actions against the State to "recover damages in tort" for loss of property caused by the "negligent or wrongful act or omission" of state employees. Fla. Stat. § 768.28(1). The State is defined to include executive departments, "independent establishments of the state," and "corporations primarily acting as instrumentalities of the state." *Id.* § 768.28(2). Tort liability is initially limited to $200,000 per incident, but a plaintiff may petition the legislature to authorize payment in excess of the limit. *Id.* § 768.28(5).

Apart from this statutory waiver of immunity in tort suits, a person alleging deprivation of property may bring a reverse condemnation action against the State for just compensation. *See, e.g., Department of Agriculture & Consumer Services v. Polk*, 568 So.2d 35, 38-40 (Fla. 1990) (holding that grower was entitled to just compensation for the State's destruction of his citrus tree nursery stock). The liability limit of § 768.28 does not apply to such "takings" claims, *see Polk*, 568 So.2d at 38, because the Florida Constitution guarantees "full compensation" for deprivation of property by the State. Fla. Const. Art. X, § 6(a). Most States, like Florida, have enacted a limited waiver of sovereign immunity for tort suits, and/or have recognized direct actions for takings of property without just compensation.[6]

6. *See, e.g., Klopping v. City of Whittier*, 8 Cal. 3d 39, 43 (1972) (Cont'd)

Common law remedies, including damages, are available for unfair competition torts; indeed, CSB asserted a common law unfair competition claim against Florida Prepaid in this litigation. J.A. 23.[7] CSB certainly could have filed a lawsuit based on the common law prohibition of unfair competition in Florida state court, rather than New Jersey federal court. A business also may seek injunctive relief for unfair competition pursuant to the Florida Deceptive and Unfair Trade Practices Act, Fla. Stat. §§ 501.201-213, which prohibits "[u]nfair methods of competition, unconscionable acts or practices, and unfair or deceptive acts or practices in the conduct of any trade or commerce." *Id.* § 501.204; *see Big Tomato v. Tasty Concepts, Inc.*, 972 F. Supp. 662, 664 (S.D. Fla. 1997). Thus, state laws already provide suitable vehicles for seeking unfair competition remedies against States in state courts.

Lanham Act claims also may be brought directly in state courts. Federal jurisdiction in Lanham Act cases is concurrent, not exclusive. 28 U.S.C. § 1338(a); 15 U.S.C. § 1121. *See In re Keasby & Mattison Co.*, 160 U.S. 221, 230 (1895) (observing that the 1881 trademark act did not "take away or impair the jurisdiction which the courts of the several States always had over suits for infringement of trade-marks"); *Aquatherm Industries v. Florida Power & Light Co.*, 84 F.3d 1388, 1394 (11th Cir. 1996) ("Federal courts do not have exclusive

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(Cont'd)
(recognizing claim for inverse condemnation); N.Y. Ct. Cl. Act § 9(2) (authorizing New York Court of Claims to hear claims against the state for the appropriation of any real or personal property). *See generally* Appendix to Brief of *Amicus Curiae* States of Ohio *et al.* (compiling statutory remedies).

7. The District Court dismissed the common law unfair competition count at the same time it dismissed the Lanham Act claim. *See* Pet. App. B at 91a. CSB did not pursue the common law claim in state court.

jurisdiction over an action brought under the Lanham Act. . . . Therefore, Aquatherm could have litigated its Lanham Act claim while in state court, but chose not to do so.") (citations omitted). Thus, CSB could have brought its Lanham Act suit against Florida Prepaid in Florida state court, pursuant to Florida's general waiver of sovereign immunity. Bringing the action in federal court in New Jersey did not redress a denial of due process, but instead imposed an unnecessary and unconstitutional burden on Florida Prepaid.

The fact that common law unfair competition claims, Lanham Act claims, or "takings" claims may be brought in the courts of any State is dispositive. The availability of such remedies in state courts deprives the entire TRCA of a constitutional foundation. The type of interest or "property" involved under the Lanham Act is irrelevant if no denial of due process can be shown to have occurred. In particular, any Lanham Act plaintiff who believes that unfair competition by a State has deprived him of property can obtain constitutionally sufficient redress in the State's own courts.

Moreover, there is no legislative or judicial record to support the notion that Florida, or any other State, has been systematically injuring businesses through unfair competition without providing a remedy sufficient to satisfy the demands of due process. The Senate Report accompanying the TRCA fails to cite even a single example, let alone persuasive evidence, of such supposed wrongdoing. Congressional discretion in fashioning enforcement mechanisms under the Fourteenth Amendment is not broad enough to justify the creation of remedies based on supposition and speculation rather than realistic due process concerns. Section 5 is not a charter for federalizing tort law in order to achieve regulatory goals on the pretext that abrogation of the Eleventh Amendment advances legitimate due process interests.

Insofar as the TRCA provides a separate federal remedy, in the form of the abrogation of Eleventh Amendment immunity, for false advertising by States, it is addressing a nonexistent constitutional harm. Accordingly, the sweeping and intrusive remedy of subjecting the States to suit in any federal court in the nation is wholly unjustified under the "congruence and proportionality" test of *City of Boerne*. The TRCA is plainly unconstitutional.[8]

II. THE DOCTRINE OF "CONSTRUCTIVE WAIVER" OF ELEVENTH AMENDMENT IMMUNITY ANNOUNCED IN *PARDEN v. TERMINAL RAILWAY OF ALABAMA DOCKS DEPARTMENT* CANNOT BE APPLIED HERE.

After *Seminole Tribe*, Congress no longer has authority under Article I of the Constitution to abrogate Eleventh Amendment immunity. Petitioner, and the United States, therefore resort to the "constructive waiver" doctrine of *Parden v. Terminal Railway of Alabama Docks Department*, 377 U.S. 184 (1964), as a basis for abrogation. *Parden* held that a state which engages in commercial activities subject to congressional regulation relinquishes its Eleventh Amendment immunity and subjects itself to suit in federal court for claims relating to those activities. *See* 377 U.S. at 192. This doctrine cannot support jurisdiction over Florida Prepaid, however, because *Parden*, which is grounded on the Commerce Clause, cannot stand after *Seminole Tribe*. The Court should therefore overrule whatever may be left of *Parden*. Moreover, as the Court of Appeals correctly held, even assuming that *Parden* remains good law, the *Parden* doctrine does not apply here.

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8. Even if adequate state process were not already available across the country, the TRCA would remain invalid under *City of Boerne* because a federal remedy could be made less intrusive to the states than the TRCA, and more closely tailored to the nature of the alleged harm.

A. *Parden* Should Be Overruled Because The *Parden* Doctrine Is Fundamentally Inconsistent With *Seminole Tribe*, Which Established That Congress Has No Power Under The Commerce Clause To Curtail Eleventh Amendment Immunity.

(1) The District Court below held that *Parden* did not survive *Seminole Tribe*. *See* Pet. App. at 68a-73a. The Court of Appeals did not reach this issue, however, because of its holding that *Parden* was inapplicable on its own terms. Given the uncertainty that exists among the lower courts about *Parden*'s survival, this Court should take this opportunity to overrule *Parden* and make explicit what is implicit in *Seminole Tribe*: the Commerce Clause-based doctrine of "constructive waiver" established in *Parden* is simply abrogation by another name, and is beyond the power of Congress under Article I.

If the teaching of *Seminole Tribe* is followed, a State's mere participation in an area subject to federal legislation that includes a congressional attempt to curtail sovereign immunity cannot create a "waiver" of immunity. It would be directly contrary to *Seminole Tribe* to permit a congressional attempt to abrogate the Eleventh Amendment actually to achieve the same result by positing a "waiver" that arises out of nothing more than a State's carrying out its activities in the regulated area. Congress cannot achieve indirectly, through "waiver," what it cannot do directly, through express abrogation.

Parden effectively permits Congress to require States to cede their immunity. Accordingly, a *Parden* waiver can be implemented only where Congress retains authority to curtail the Eleventh Amendment. No such authority remains, however, except for the nonsubstantive, remedial enforcement power of the Fourteenth Amendment. The decision in *Parden* that States can implicitly waive their Eleventh Amendment immunity through participation in a regulated field was inextricably linked

to — indeed, was based on — the view held by some members of the Court in 1964 that Congress enjoys authority under the Commerce Clause to curtail Eleventh Amendment immunity. Squarely addressing the question of congressional authority, the *Parden* Court stated:

> Respondents contend that Congress is without power, in view of the immunity doctrine, thus to subject a State to suit. We disagree. Congress enacted the FELA *in the exercise of its constitutional power to regulate interstate commerce*. . . . While a State's immunity from suit by a citizen without its consent has been said to be rooted in "the inherent nature of sovereignty," . . . *the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce*. . . . By empowering Congress to regulate commerce, then, the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation. Since imposition of the FELA right of action upon interstate railroads is within congressional regulatory power, it must follow that application of the Act to such a railroad cannot be precluded by sovereign immunity.

377 U.S. at 191-92 (emphasis added; citations and footnotes omitted). The suggestion that Alabama, the State in question, "necessarily consented" to suit by operating the railroad, *id.* at 192, was the conclusion, rather than the premise, of the Court's reasoning regarding the Commerce Clause and the Eleventh Amendment.

The holding of *Parden* thus depends on a now discredited view of congressional authority under the Commerce Clause to

restrict Eleventh Amendment immunity.[9] This Court correctly summarized the essential holding of *Parden* in *Welch v. Texas Department of Highways & Public Transportation*, 483 U.S. 468 (1987), where the Court applied to the *Parden* doctrine the requirement of *Atascadero State Hospital v. Scanlon*, 473 U.S. 234 (1985), that "an abrogation of Eleventh Amendment immunity by Congress must be expressed in unmistakably clear language." *Welch*, 483 U.S. at 478. The Court also noted that

> we have no occasion in this case to consider the validity of the additional holding in *Parden*, that Congress has the power to *abrogate* the States' Eleventh Amendment immunity *under the Commerce Clause* to the extent that the States are engaged in interstate commerce.

Id. at 478 n.8 (emphasis added). Clearly, the Court in *Welch* saw little reason to distinguish between the nomenclature of "waiver" and that of "abrogation"; the practical effect of the elimination of Eleventh Amendment immunity by congressional action was correctly deemed the only relevant consideration.

Moreover, in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), the case that finally stated unambiguously that the Commerce Clause authorizes Congress to abrogate state immunity (and which now has been overruled by *Seminole Tribe*), Justices on both sides of the issue acknowledged that *Parden*'s continued vitality depends on whether or not direct abrogation authority exists under the Commerce Clause. The plurality opinion observed:

> Though we have never squarely resolved this issue of congressional power, our decisions mark a trail unmistakably leading to the conclusion that

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9. *See, e.g.*, Vazquez, 106 Yale L.J. at 1698 & n.67 (describing Justice Brennan's view in *Parden* as "a broad theory of congressional power to abrogate sovereign immunity under Article I").

Congress may permit suits against the States for money damages. The trail begins with *Parden v. Terminal Railway of Alabama Docks Dept.*, 377 U.S. 184 (1964). There, in responding to a state-owned railway's argument that Congress had no authority to subject the railway to suit, we concluded that "the States surrendered a portion of their sovereignty when they granted Congress the power to regulate commerce," *id.*, at 191, and that "[b]y empowering Congress to regulate commerce, . . . the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation," *id.*, at 192. Although it is true that we have referred to *Parden* as a case involving a waiver of immunity, *Fitzpatrick v. Bitzer*, 427 U.S. 445, 451 (1976), the statements quoted above lay a firm foundation for the argument that Congress' authority to regulate commerce includes the authority directly to abrogate States' immunity from suit.

491 U.S. at 14. Thus, if "the argument that Congress' authority to regulate commerce includes the authority directly to abrogate States' immunity from suit" is rejected, as it was in *Seminole Tribe*, *Parden* must be rejected as well.

Dissenting in *Union Gas*, Justice Scalia[10] argued that even viewing *Parden* as a waiver case could not save it from constitutional infirmity under the analysis that eventually triumphed in *Seminole Tribe*:

> *Parden* is the only case in which we have held that the Federal Government can demand, as a

10. This portion of Justice Scalia's opinion in *Union Gas* was joined by the Chief Justice, Justice O'Connor, and Justice Kennedy.

> condition to its permission of state action regulable under the Commerce Clause, the waiver of state sovereign immunity. . . . [I]n *Welch*, we overruled *Parden* insofar as that case spoke to the clarity of language necessary to constitute such a demand. . . . We explicitly declined to address, however, the continuing validity of *Parden*'s holding that the Commerce Clause provided the constitutional power to make such a demand. . . . I would drop the other shoe.
>
> There are obvious and fatal difficulties in acknowledging such a power if no Commerce Clause power to abrogate state sovereign immunity exists. All congressional creations of private rights of action attach recovery to the defendant's commission of some act, or possession of some status, in a field where Congress has authority to regulate conduct. Thus, *all* federal prescriptions are, insofar as their prospective application is concerned, in a sense conditional, and — to the extent that the objects of the prescriptions consciously engage in the activity or hold the status that produces liability — can be redescribed as invitation to "waiver." . . . [T]o acknowledge that the Federal Government can make the waiver of state sovereign immunity a condition to the State's action in a field that Congress has authority to regulate is substantially the same as acknowledging that the Federal Government can eliminate state sovereign immunity in the exercise of its Article I powers. . . . There is little more than a verbal distinction between saying that Congress can make the Commonwealth of Pennsylvania liable to private parties for hazardous-waste cleanup costs on sites that the Commonwealth owns and operates, and

> saying the same thing but adding at the end "if the Commonwealth chooses to own and operate them." If state sovereign immunity has any reality, it must mean more than this.

Union Gas, 491 U.S. at 42-44 (Scalia, J., concurring in part and dissenting in part) (citations and footnotes omitted).

Justice Scalia's opinion in *Union Gas* sets forth the reasoning which the Court should adopt in deciding the question of *Parden*'s viability after *Seminole Tribe*.[11] Because Congress has no power to abrogate Eleventh Amendment immunity under the Commerce Clause, *Parden*-style waivers also should be impossible. Congress's power to extract a "waiver" from States must rest on some constitutional foundation, for Congress cannot act absent such authority. The only possible source of that power — indeed, the source explicitly identified in *Parden* — is the Commerce Clause. Once it has been determined that the Commerce Clause does not authorize Congress to curtail Eleventh Amendment immunity, then the only constitutional underpinning of the *Parden* doctrine has been destroyed. It is simply a necessary corollary of the holding in *Seminole Tribe* that *Parden*-based constructive waivers have been eliminated.

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11. The United States attempts to reconcile *Parden* with *Seminole Tribe* by citing this Court's comment in *Seminole Tribe* to the effect that *Parden* stands for "the unremarkable, and completely unrelated, proposition that the States may waive their sovereign immunity." Brief for U.S. at 25 (quoting *Seminole Tribe*, 517 U.S. at 65). The Court's holding in *Seminole Tribe*, however, does not expressly address the question of *Parden*'s survival. Moreover, shortly after deciding *Seminole Tribe*, the Court vacated a lower court's application of *Parden* and remanded for reconsideration in light of *Seminole Tribe*. *See Chavez v. Arte Publico Press*, 59 F.3d 539 (5th Cir. 1995), *vacated & remanded*, 517 U.S. 1184 (1996).

Accordingly, the Court should formally overrule the remnants of *Parden*.[12]

Some courts of appeals already have reached the conclusion that after *Seminole Tribe*, *Parden* cannot survive. The Court of Appeals for the Fifth Circuit, responding to a remand from this Court directing it to reconsider its application of *Parden* in light of *Seminole Tribe*, has announced that holding explicitly. *Chavez v. Arte Publico Press*, 139 F.3d 504, 508 (5th Cir. 1998) (holding that "[a] fair reading of *Seminole*" compels the conclusion that forced waivers of immunity are impermissible), *modified*, 157 F.3d 282 (5th Cir. 1998), *reh'g granted*. Other courts have recognized the demise of *Parden* as inevitable. The Fourth Circuit has acknowledged:

> We realize that the power to define waiver can become the functional equivalent of the power to abrogate. Indeed, defining waiver as anything less than "the sort of voluntary choice which we generally associate with the concept of constitutional waiver" permits Congress to do indirectly what it perhaps could not do otherwise.

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12. In *Hilton v. South Carolina Public Railways Commission*, 502 U.S. 197 (1991), which involved the application of the FELA to state entities in state courts, this Court held that the doctrine of *stare decisis* prevented the overruling of *Parden*'s statutory-construction holding that Congress intended the FELA to apply to the states. The Court observed, however, that in so doing it preserved only an "ordinary rule of statutory construction," *id.* at 205 (citation omitted), and noted that in the past it had not hesitated to overrule a portion of *Parden*'s constitutional holding after announcing the rule that Congress must provide a clear statement of its intent to abrogate Eleventh Amendment immunity: "That rule was developed after the *Parden* decision, and was found in *Welch* to have undercut the reasoning of *Parden* and to require *Parden*'s Eleventh Amendment holding to be overruled." *Id.* at 204. Similarly, the rule developed in *Seminole Tribe* "undercuts" the remainder of *Parden* and requires it to be overruled.

Aer-Aerotron, Inc. v. Texas Department of Transportation, 104 F.3d 677, 681 (4th Cir. 1997) (quoting *Employees v. Missouri Department of Public Health & Welfare*, 411 U.S. 279, 296 (1973) (Marshall, J., concurring)). One of the members of the *Aer-Aerotron* panel faced the issue even more directly in a concurrence:

> [I]f *Seminole Tribe* made anything clear, it is that Eleventh Amendment immunity is a function of a State's sovereign constitutional status, not Congress' Article I powers. . . . *Seminole Tribe* held that Congress' Article I powers are irrelevant to an Eleventh Amendment waiver. Instead, a state's actions waive immunity when such actions are independently sufficient under Eleventh Amendment doctrine.

104 F.3d at 683 (Niemeyer, J., concurring). The Second Circuit has been equally blunt:

> *Parden*'s viability, in light of *Seminole Tribe*, is precarious. If Congress no longer has the power to abrogate state sovereign immunity under Article I, constructive consent should not become a shunt to Article III bypassing the mandate of the Supreme Court.

Close v. State of New York, 125 F.3d 31, 40-41 (2d Cir. 1997); *see also American Federation of State, County & Municipal Employees v. Virginia*, 949 F. Supp. 438, 442 (W.D. Va. 1996) (holding that *Seminole Tribe* "essentially rejected" the reasoning of *Parden*), *aff'd on other grounds*, 145 F.3d 182 (4th Cir. 1998).

(2) Both the United States and *amicus curiae* International Trademark Association attempt to salvage *Parden* by arguing that the congressional extraction of a "waiver" of Eleventh Amendment immunity through legislation regulating commerce in which States participate is akin to the congressional attaching

of conditions on the States' receipt of federal funds. In *South Dakota v. Dole*, 483 U.S. 203 (1987), the Court held that Congress could use its spending power under Art. I, § 8, cl. 1 of the Constitution to promote a uniform national drinking age by conditioning the receipt of federal highway funds on a State's adoption of a minimum drinking age of twenty-one. As the Court explained:

> The Constitution empowers Congress to "lay and collect Taxes, Duties, Imposts, and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States." Art. I, § 8, cl. 1. Incident to this power, Congress may attach conditions on the receipt of federal funds, and has repeatedly employed the power "to further broad policy objectives by conditioning receipt of federal moneys upon compliance by the recipient with federal statutory and administrative directives." . . . [O]bjectives not thought to be within Article I's "enumerated legislative fields[]" . . . may nevertheless be attained through the use of the spending power and the conditional grant of federal funds.

Id. at 206-07 (citations omitted).

The obvious problem with applying the spending power waiver doctrine to the TRCA is that the TRCA does not involve any disbursement of federal funds directly to the States. Nor, for that matter, does the Lanham Act itself, which the TRCA amends. Congress never offered Florida Prepaid federal funds for use in its prepaid tuition program or for any other purpose in exchange for a waiver of Eleventh Amendment immunity. Thus, *South Dakota v. Dole* does not apply here.

Moreover, it is doubtful that the spending power waiver doctrine could apply even if funds had been disbursed by Congress and accepted by Florida Prepaid. The United States argues that the types of concessions Congress may extract from States through funding programs include waivers of Eleventh Amendment immunity. *See* Brief for U.S. at 14-15 (citing *Clark v. California*, 123 F.3d 1267 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 2340 (1998)). This Court, however, has never approved such a waiver scheme. A significant difference exists between influencing state policy decisions and coercing States to abandon a specific right guaranteed by the Constitution. *See, e.g., Edelman v. Jordan*, 415 U.S. 651, 673 (1974) (noting that "constructive consent is not a doctrine commonly associated with the surrender of constitutional rights").

The United States appears to recognize that *South Dakota v. Dole* is inapplicable on its own terms. However, by combining *Dole* with several other decisions involving various types of waiver,[13] the United States attempts to cobble together a more generalized theory of "constitutional conditions" by which Congress, in exchange for the provision of certain benefits to the States, can retain the power to extract constructive waivers of Eleventh Amendment immunity. There are several significant difficulties with this argument. First, the United States ignores the fact that older decisions such as *Petty v. Tennessee-Missouri Bridge Commission*, 359 U.S. 275 (1959), cannot be used to defend *Parden* after *Seminole Tribe* because the older decisions themselves, to the extent they might be deemed to apply in the

13. *Petty v. Tennessee-Missouri Bridge Commission*, 359 U.S. 275 (1959) (interstate compacts); *MCI Telecommunications Corp. v. Illinois Commerce Comm'n*, 1999 Westlaw 65021 (7th Cir. Feb. 10, 1999) (Telecommunications Act of 1996); *Premo v. Martin*, 119 F.3d 764 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 1163 (1998) (Randolph-Sheppard Act); *In re Straight*, 143 F.3d 1387 (10th Cir.), *cert. denied*, 119 S. Ct. 446 (1998) (bankruptcy).

Eleventh Amendment context, would require careful re-examination in light of *Seminole Tribe*. Second, even post-*Seminole* decisions such as *In re Straight*, 143 F.3d 1387 (10th Cir.), *cert. denied*, 119 S. Ct. 446 (1998), cannot be firmly relied upon because their holdings are controversial. As the United States acknowledges, *In re Straight* conflicts with the Fourth Circuit's decision in *In re Creative Goldsmiths*, 119 F.3d 1140 (4th Cir. 1997), *cert. denied*, 118 S. Ct. 1517 (1998), which found unconstitutional under *Seminole Tribe* the same forced waiver scheme in the bankruptcy code approved by the Tenth Circuit in *Straight*.

The fatal flaw in the argument of the United States, however, is that any potentially legitimate use of "constitutional conditions" by Congress to extract waivers of rights from States must involve a *quid pro quo* voluntarily accepted by the States. As in the spending power cases, Congress must provide some concrete benefit directly to the States, which the States are free to consider and to accept in exchange for relinquishing their rights. No *quid pro quo* exists here. Congress has not provided funds to the States through the TRCA, nor has it provided any benefit that could even arguably support an ostensibly bargained-for waiver of Eleventh Amendment immunity. The TRCA, in relevant part, indicates only that the States may be sued in federal court for violations of the Lanham Act. The statute gives nothing to the States as "consideration" for the waiver that it purportedly extracts.

Nor can the *quid pro quo* justification be made broad enough to support the *Parden* doctrine in general. The notion that a State receives the "benefit" of being protected by the federal statutory scheme in exchange for submitting itself to federal jurisdiction, *see* Brief for United States at 28-29, plainly demonstrates that the argument of the United States is a mere restatement of the original *Parden* doctrine, not a true apologia for *Parden* that takes into account *Seminole Tribe*. *Every* federal statute arguably

confers the benefit of the protection of federal law on all those it regulates. If such a diffuse benefit were deemed sufficient to constitute a *quid pro quo* that might be traded for the waiver of Eleventh Amendment immunity, then every federal statute that regulates commerce would be capable of extracting a "waiver" of immunity from every State that participates in commerce.[14] *Seminole Tribe* notwithstanding, Congress would enjoy the functional equivalent of abrogation power: the authority under Article I to coerce "waivers" of Eleventh Amendment immunity in every legislative context.[15]

Parden relied on a legal fiction: a broad view of congressional abrogation power under the Commerce Clause was cloaked in the language of waiver. This Court should reject the offer of a second, supplemental fiction — the elective exchange of rights for benefits — to replace the expired original. The Court should reject the markedly overbroad reading of its spending power precedents put forward by the United States,

14. Moreover, as discussed below in part II.C, Florida Prepaid began its prepaid tuition program *before* the TRCA was enacted. If the argument of the United States were accepted, Congress would be able to demand of states already engaged in targeted activities that they either cease operations or relinquish their Eleventh Amendment immunity in exchange for the "privilege" of being able to continue the existing program.

15. The International Trademark Association suggests that subjecting state actors to federal court jurisdiction would "level the playing field" by imposing on the states the same burdens that private parties must bear. *See* Brief Amicus Curiae of the International Trademark Association at 10-13. The United States echoes this concern. *See* Brief for U.S. at 29-30 (advocating "evenhandedness"). Such arguments ignore the fact that the Eleventh Amendment was proposed and ratified precisely to *avoid* a "level playing field." Policy preferences of this type do not support the application of the *Parden* doctrine, whether the doctrine is justified as a raw exercise of Commerce Clause power or as the genteel exchange of rights for benefits.

and should hold that constructive waivers under *Parden* cannot be justified after *Seminole Tribe* as the supposed products of a voluntary exchange.

In sum, the *Parden* waiver doctrine is based on a premise — the existence of congressional authority under the Commerce Clause to shape the contours of state sovereign immunity — that this Court re-examined and rejected in *Seminole Tribe*. *Parden* is now obsolete, and should be expressly overruled.

B. Even If *Parden* Remains Good Law, The *Parden* Doctrine Of Constructive Waiver Of Immunity Does Not Apply Here Because Florida Prepaid Is An Agency Of The State Of Florida Carrying Out The Core Governmental Function Of Promoting Education.

Even if the *Parden* waiver doctrine had any lingering vitality after *Seminole Tribe*, it could apply only to situations where a State is involved in an area of commerce not normally occupied by government. *See Employees v. Missouri Department of Public Health & Welfare*, 411 U.S. 279, 284-85 (1973). CSB argues here that Florida Prepaid is engaged in a proprietary enterprise not traditionally occupied by state government, and is therefore vulnerable to *Parden*. *See* Brief for Petitioner at 38-41. This contention is in error, as the Court of Appeals held. Florida Prepaid enables the State of Florida to provide higher education to its citizens — undeniably a central function of state government. Accordingly, the *Parden* doctrine, on its own terms, cannot apply to the activities of Florida Prepaid.

Florida Prepaid's primary goal is advancing education for Florida citizens within the State of Florida. This Court long has recognized the fact that "education is perhaps the most important function of state government." *Brown v. Board of Education*, 347 U.S. 483, 493 (1954). The Court recently reaffirmed that education is an area "where States historically have been sovereign." *United States v. Lopez*, 514 U.S. 549, 564 (1995).

In *Lopez*, a case not involving the Eleventh Amendment, this Court struck down legislation founded on a sweeping interpretation of congressional power under the Commerce Clause. *See also Skehan v. State System of Higher Education*, 815 F.2d 244, 247-49 (3d Cir. 1987) (holding that the Pennsylvania State System of Higher Education, "a body corporate and politic" created by state law to administer educational institutions, was entitled to claim Eleventh Amendment immunity, and stating that "[p]roviding education has long been recognized as a function of state government").

CSB largely disregards the promotion of educational objectives in its discussion of the activities of Florida Prepaid. Certainly, providing a state agency which exists for the purpose of helping people pay for the education of Florida citizens at Florida universities and community colleges is vital to Florida's attainment of its educational objectives in operating these institutions; an empty school that citizens cannot afford to attend does nothing to achieve the goal of education. Florida Prepaid provides a substantial benefit that directly and significantly promotes the educational objectives of the State of Florida, as the Court of Appeals found:

> The Florida legislature specifically authorized and created Florida Prepaid to facilitate the education of its citizens. The core government function of education does not necessarily only embody the actual teaching of individuals; it is a broader function which can incorporate actions that involve related aspects to this overall goal. Florida Prepaid serves the important government interest of education by making it affordable to its citizens.

Pet. App. at 24a.

CSB's argument that *Parden* was applied incorrectly is based largely on the fact that prepaid tuition programs are not operated *exclusively* by state governments. *See* Brief for Petitioner at 40-41. This argument badly misses the mark. Florida Prepaid pursues the larger goal of making higher education available and affordable to its citizens, and that is a traditional state activity — a core function of the States. State governments commonly operate college and university systems that, in appropriate cases, can assert Eleventh Amendment immunity. *See, e.g., Regents of the University of California v. Doe*, 519 U.S. 425, 427 & n.2 (1997) (noting the Ninth Circuit's recognition of such immunity for the University of California). Obviously, however, States are not the exclusive administrators of such institutions. Under CSB's view, a state university always would be subject to the *Parden* doctrine, and thus never could claim the protection of the Eleventh Amendment. Indeed, CSB's crudely literal reading of the formula in *Parden* that a State may waive its immunity if it "leaves the sphere that is exclusively its own," Brief for Petitioner at 41 (quoting 377 U.S. at 196), would strip States of their immunity for doing anything other than operating a legislature, an executive and a judiciary.

The Court of Appeals correctly held that *Employees v. Missouri Department of Public Health & Welfare*, 411 U.S. 279, 284-85 (1973), modified *Parden* by expanding the scope of important state activities that would not implicate constructive waivers of sovereign immunity. *See* Pet. App. at 19a. There is no constitutional difference between a State's operation of a system of hospitals, as in *Employees v. Missouri Department of Public Health*, and a State's operation of a prepaid tuition program. Both are large-scale, financially complex activities that usually compete with similar offerings from private companies.

Petitioner also complains that

> [t]he Court of Appeals has confused the distinction between the role of the States in providing

> educational institutions with the quite different function of providing investment vehicles for assisting parents and others to meet the costs of college.

Brief for Petitioner at 41. Petitioner has created a straw man, however, by insisting that Florida Prepaid offers "investment vehicles" to the public. The United States makes the same mistake by repeatedly arguing that Florida Prepaid sells "commercial investment products." Brief for United States at 24; *see also id.* at 30. In fact, Florida Prepaid offers "advance payment contracts," not conventional investment vehicles. *See* Fla. Stat. § 240.551(2)(e)(1), J.A. 46. The Florida Prepaid program does not produce investment income. According to section 5.01 of the Florida Prepaid Master Covenant,

> [t]his Master Covenant is not a debt instrument. Except for the circumstances in Paragraphs 5.02, 555.03, and 5.08, termination or default will entitle you [the purchaser] to a refund of the amount paid into the plan, minus reasonable administrative fees established by the Board. No interest will be refunded.

The Master Covenant further provides:

> All legal and beneficial interests in the assets held by the trust fund are vested in the State for its exclusive benefit and the exclusive benefit of the colleges and universities; therefore, payments are guaranteed to be made on the beneficiary's behalf to the State college or university. Exercise of full benefits under the contract guarantees the beneficiary receipt of services and the beneficiary will not receive any funds.

Florida Prepaid Master Covenant, § 5.08. Thus, Florida Prepaid's contracts are not investment vehicles; they are agreements to purchase college services by advance payment.

The Small Business Job Protection Act of 1996, Pub. L. No. 104-188, 110 Stat. 1755 (1996), extended tax-exempt status to all state-run prepaid tuition programs. Congress apparently has recognized that promoting education through the establishment and operation of college tuition prepayment programs is an appropriate function of state government. Congress also has recognized the distinction between state-run tuition prepayment programs and private, for-profit tuition savings programs, such as CSB's, by giving favorable tax treatment to state-run programs.[16] *See id.*

The real question raised by the arguments of Petitioner and the United States is whether the *Parden* doctrine can be applied to freeze States into a limited, archaic role in providing for the educational needs of their citizens. Education today, particularly higher education, has become complex, bureaucratic, and expensive. Any State that operates a university system is already

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16. Tax-exempt status applies to "qualified State tuition programs," which are defined as programs

> established and maintained by a State or agency or instrumentality thereof under which a person (i) may purchase tuition credits or certificates on behalf of a designated beneficiary which entitle the beneficiary to the waiver or payment of qualified higher education expenses of the beneficiary, or (ii) may make contributions to an account which is established for the purpose of meeting the qualified higher education expenses of the designated beneficiary of the account. . . .

Id. § 1806 (codified as amended at 26 U.S.C.A. § 529(b)(1) (Supp. 1998)).

operating a multi-billion dollar "business" that competes with similar private institutions. The financial aid departments of such state university systems perform sophisticated economic tasks, including the making of loans to students and their parents, that cannot be deemed constitutionally distinct from the economic activities of Florida Prepaid. Neither type of organization is an investment house or profit-making venture;[17] each, in its own way, is contributing to the educational attainment of the citizenry. If the *Parden* doctrine is deemed applicable to Florida Prepaid, it must also be applied to myriad other state activities that go beyond the running of a legislature, executive, and judiciary, but have become essential for the welfare of the people of the State. This Court should decline the invitation to confine the States to a primitive, excessively narrow conception of their governmental functions.

Because Florida Prepaid is performing a role traditionally undertaken by state governments — making available affordable educational benefits — the Court of Appeals properly held that the *Parden* doctrine cannot apply to eliminate Florida Prepaid's immunity under the Eleventh Amendment.

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17. The United States suggests that Florida Prepaid has been "highly profitable, amassing a surplus of more than $184 million during the first seven years of its operations." Brief for U.S. at 27. A not-for-profit entity does not become a for-profit business simply because it accumulates a surplus — funds that are held in reserve for future expenses and are not used to enrich owners (which Florida Prepaid lacks). Florida Prepaid is not a for-profit agency, and it has not earned a profit merely because it holds a reserve to pay future education expenses. Many States currently enjoy budgetary surpluses as a result of the continuing economic boom, but obviously cannot be deemed for-profit enterprises.

C. The TRCA Is Insufficient To Trigger A Waiver Of Immunity Under *Parden* Because The Statute Does Not Provide Clear Notice To States That Engaging In A Specifically Defined Type Of Commerce Will Result In The Loss Of Eleventh Amendment Protection.

Even assuming that, theoretically, a State's operation of a prepaid tuition program could be considered the type of commercial activity that falls within the narrow scope of *Parden*'s constructive waiver doctrine, the TRCA is plainly insufficient to trigger such a waiver. The statute simply cannot be read as an adequate warning from Congress that the States are deemed to forfeit their Eleventh Amendment immunity *if they decide to operate prepaid tuition programs*. The TRCA does not regulate state prepaid tuition programs or any related financial programs or products. Like the Lanham Act itself, the TRCA simply applies to commerce *in general*, conceived in the broadest possible terms. Because the TRCA does not set forth a congressional plan with respect to a particular type of commercial activity, it cannot reasonably be interpreted to alert States to the possibility of the loss of sovereign immunity resulting from participation in a defined type of commerce.

Thus, the Court of Appeals was mistaken in stating that *Parden* could have been triggered here because

> the [TRCA] declares that if a state or its instrumentality chooses to engage in a proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act.

Pet. App. at 21a. There are few types of proprietary activity that do not "potentially fall" within the scope of the Lanham Act, which forbids false advertising, trademark infringement, and other offenses in interstate commerce generally.

Parden itself sets forth the requirement of an explicit connection between the regulation of a specific type of commerce and a State's decision to "waive" its immunity by participating in that type of commerce:

> By adopting and ratifying the Commerce Clause, the States empowered Congress to create such a right of action against interstate railroads; by enacting the FELA in the exercise of this power, *Congress conditioned the right to operate a railroad in interstate commerce upon amenability to suit in federal court as provided by the Act*; by thereafter operating a railroad in interstate commerce, Alabama must be taken to have accepted that condition and thus to have consented to suit.

377 U.S. at 192 (emphasis added). In contrast, through the TRCA Congress has not conditioned the operation of a prepaid tuition program in interstate commerce on anything, let alone the forfeiture of Eleventh Amendment immunity. Congress has simply declared that States which violate the Lanham Act may be sued in federal court.

The Brief for the United States correctly describes the *Parden* test but fails to acknowledge that the TRCA fails that test. According to the United States,

> Florida Prepaid chose to sell and to advertise commercial investment products in competition with private enterprises. The question whether *that conduct* effected a knowing and voluntary waiver of Eleventh Amendment immunity turns on two subsidiary inquiries. First, a State's conduct can be treated as a knowing wavier of Eleventh Amendment immunity only if Congress has *unambiguously provided that a State that engages*

> *in such conduct* will be subject to suit in federal court.

Brief for U.S. at 24 (emphasis added); *see also id.* at 28 n.8 (again stating test in terms of a State's decision to engage in "specified conduct"). The Solicitor General's formulation of the first *Parden* factor thus recognizes that the "conduct" that supposedly constitutes a waiver of immunity is the marketing of a prepaid tuition program (which the United States misdescribes as selling "commercial investment products"). Clearly, however, Congress has *not* unambiguously provided that the operation of a prepaid tuition program will subject a State to suit in federal court; the TRCA nowhere mentions prepaid tuition programs. The only "conduct" described in the statute as the basis for the loss of immunity is the conduct of violating the Lanham Act.

A statute that applies to *all* interstate commerce, and merely warns States of the loss of sovereign immunity if they violate the statute in any way, cannot be sufficient to trigger *Parden*. The contrary result would tear the *Parden* doctrine loose from its already fragile moorings in the law of waiver and make it a free-floating abrogation engine just as powerful as, and little different from, the Commerce Clause abrogation doctrine this Court rejected in *Seminole Tribe*.

Finally, attention to *Parden*'s requirement of congressional regulation of *specific* state conduct is especially important here because the Florida Prepaid program at issue predates the congressional attempt to make the States amenable to suit under the Lanham Act. The Florida Prepaid program was enacted in 1987 and began operations in 1988. J.A. 27. The TRCA did not become effective until October 27, 1992. Thus, Florida Prepaid was engaged in the conduct of operating a prepaid tuition program years before Congress purported to condition participation in such activity — even assuming the TRCA could

be read in this distorted fashion — on a "waiver" of sovereign immunity. Nothing in *Parden* suggests that Congress can extract a *retroactive* waiver from States engaged in activities newly subject to legislation. *See* 377 U.S. at 192 ("Our conclusion is simply that Alabama, when it began operation of an interstate railroad approximately 20 years after enactment of the FELA, necessarily consented to such suit as was authorized by that Act."); *see also Close v. State of New York*, 125 F.2d 31, 40 (2d Cir. 1997) ("[G]iven that New York had employees before the enactment of the FLSA and before it was made applicable to the States, its continued status as an employer cannot realistically be construed as a waiver of immunity.").

Thus, even assuming: (1) that the *Parden* doctrine survives *Seminole Tribe*; and (2) that Florida Prepaid's operation of a prepaid tuition program constitutes commercial activity that is subject to *Parden*, the constructive waiver doctrine still cannot be applied here because the TRCA is incapable of triggering such a waiver.

CONCLUSION

The judgment of the Court of Appeals should be affirmed.

Respectfully submitted,

WILLIAM B. MALLIN
Counsel of Record
JOSEPH M. RAMIREZ
ECKERT SEAMANS CHERIN
& MELLOTT, LLC
600 Grant Street, 44th Floor
Pittsburgh, PA 15219
(412) 566-6000

Attorneys for Respondent

LOUIS F. HUBENER
Assistant Attorney General
Office of the Attorney General
The Capitol
Tallahassee, FL 32399-1050
(850) 414-3300

Of Counsel to Respondent

(15)

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In the Supreme Court of the United States

OCTOBER TERM, 1998

COLLEGE SAVINGS BANK, PETITIONER

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

REPLY BRIEF FOR THE UNITED STATES

SETH P. WAXMAN
Solicitor General
Counsel of Record
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

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1. Respondent contends (Resp. Br. 23-30) that this Court's decision in *Parden* v. *Terminal Railway of the Alabama State Docks Department*, 377 U.S. 184 (1964), is inconsistent with *Seminole Tribe* v. *Florida*, 517 U.S. 44 (1996), and should therefore be overruled. That argument cannot be reconciled with *Seminole Tribe* itself. The Court in that case held that the Commerce Clause, U.S. Const. Art. I, § 8, Cl. 3, does not empower Congress to abrogate an unconsenting State's Eleventh Amendment immunity from suit in federal court. See Gov't Br. 25. The *Seminole Tribe* Court squarely rejected the contention that its holding was at odds with *Parden*, which it characterized as "a case holding the unremarkable, and completely unrelated, proposition

that the States may waive their sovereign immunity." 517 U.S. at 65.

As we acknowledge in our opening brief (at 27-28 n.8), *Parden* is susceptible of a broad reading that would render it inconsistent with *Seminole Tribe*. The *Parden* Court stated, for example, that "when a State leaves the sphere that is exclusively its own and enters into activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation." 377 U.S. at 196. That passage suggests that Congress may permissibly provide for suit against a State in federal court whenever the State's conduct is subject to substantive federal regulation. To treat all conduct regulable by the federal government as a "waiver" of Eleventh Amendment immunity would indeed eviscerate the distinction between waiver and abrogation. See Gov't Br. 27-28 n.8; *Pennsylvania* v. *Union Gas Co.*, 491 U.S. 1, 44 (1989) (Scalia, J., concurring in part and dissenting in part).

As we explain in our opening brief (at 23-24), however, subsequent decisions of this Court have significantly qualified *Parden*, while leaving its core principles intact. Thus, in *Employees of the Department of Public Health & Welfare* v. *Department of Public Health & Welfare*, 411 U.S. 279, 284 (1973), the Court distinguished the railroad involved in *Parden*—a for-profit business that operated "in the area where private persons and corporations normally ran the enterprise"—from institutions (such as hospitals) that had traditionally been run by state officials on a nonprofit basis. In *Welch* v. *Texas Department of Highways & Public Transportation*, 483 U.S. 468 (1987), the Court held that federal statutes will not be construed to subject the States to suit in federal court

absent an unequivocal expression of that intent. *Id.* at 476-478 (plurality opinion); *id.* at 495-496 (Scalia, J., concurring in part and concurring in the judgment). Thus, even if a State's conduct is subject to substantive federal regulation, it will not be treated as a waiver of Eleventh Amendment immunity unless (a) it is sufficiently removed from the core functions of the State that it can reasonably be treated as a voluntary choice, and (b) Congress has unambiguously provided that a State that engages in such conduct will be subject to suit in federal court.

So qualified, the doctrine of implied waiver is fully consistent with *Seminole Tribe*. This Court's holding that the Eleventh Amendment prevents Congress from using its Article I power to authorize "suits by private parties against unconsenting States," *Seminole Tribe*, 517 U.S. at 72, simply does not speak to the issue of when a State's consent to suit in federal court can properly be inferred. More specifically, nothing in *Seminole Tribe* casts doubt on the proposition that a State's voluntary entry into the commercial marketplace may properly be treated as a waiver of Eleventh Amendment immunity, provided that Congress has made that consequence of the State's action unmistakably clear.[1]

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[1] The plaintiffs in *Seminole Tribe* alleged that the defendant State had breached its federal statutory obligation to enter into negotiations with tribal officials concerning a Tribal-State compact that would have defined the terms under which Indian gaming would be permitted within Florida. 517 U.S. at 48-52. The case thus involved a challenge to the State's exercise of its regulatory powers. *Union Gas* likewise arose out of a State's involvement in distinctly governmental activity—the operation of a flood-control

2. As our opening brief explains (at 14-20), this Court and the federal courts of appeals have recognized in a variety of contexts that a State may impliedly waive its Eleventh Amendment immunity by voluntarily engaging in conduct that Congress has clearly provided will subject the State to suit in federal court. Our opening brief explains, in particular, that Congress may condition the acceptance and receipt of federal funds on a State's waiver of immunity from suit in federal court. Gov't Br. 14-15. Respondent finds it "doubtful" (Br. 32) that such a Spending Clause statute would be constitutional.

Although this Court has not squarely resolved the question, its precedents strongly suggest that the disbursement of federal funds to a State may properly be conditioned on the State's waiver of Eleventh Amendment immunity. In both *Atascadero State Hospital* v. *Scanlon*, 473 U.S. 234, 247 (1985), and *Edelman* v. *Jordan*, 415 U.S. 651, 672-674 (1974), the Court rejected the contention that the state defendants had waived their Eleventh Amendment immunity by accepting federal funds. In each of those cases, however, the Court based its decision on the fact that the relevant funding statute did not make clear that, by accepting the funds, recipient States would thereby subject themselves to suit in federal court. See Gov't Br. 15-16 n.5. That mode of analysis would have been unnecessary if Congress lacked power to condition federal largesse on a waiver of Eleventh Amendment immunity. In *Lane* v. *Peña*, 518 U.S. 187, 198 (1996), the Court observed that Congress had amended the

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project. 491 U.S. at 5. Neither case involved a State's operation of a commercial enterprise in competition with other market participants.

Rehabilitation Act of 1973 (which imposes nondiscrimination obligations upon the recipients of federal funds) in order "to provide the sort of unequivocal waiver that [the Court's] precedents demand." See also *id.* at 200 (noting "the care with which Congress responded to [the Court's] decision in *Atascadero* by crafting an unambiguous waiver of the States' Eleventh Amendment immunity"). In any event, respondents offer no basis for treating the Eleventh Amendment as an exception to the general rule that Congress through its spending power may encourage state choices that it could not constitutionally compel. Compare *South Dakota* v. *Dole*, 483 U.S. 203, 207-211 (1987); *New York* v. *United States*, 505 U.S. 144, 167, 171-172 (1992).

Indeed, what is especially illuminating for present purposes is the manner in which the Court's Spending Clause precedents have approached the subject of a State's consent to funding conditions. The Court has explained that

> legislation enacted pursuant to the spending power is much in the nature of a contract: in return for federal funds, the States agree to comply with federally imposed conditions. The legitimacy of Congress' power to legislate under the spending power thus rests on whether the State voluntarily and knowingly accepts the terms of the "contract." There can, of course, be no knowing acceptance if a State is unaware of the conditions or is unable to ascertain what is expected of it. Accordingly, if Congress intends to impose a condition on the grant of federal moneys, it must do so unambiguously. By insisting that Congress speak with a clear voice, we enable the States to exercise their choice knowingly, cognizant of the consequences of their participation.

Pennhurst State Sch. & Hosp. v. *Halderman*, 451 U.S. 1, 17 (1981) (citations omitted). Absent from that reasoning is any suggestion that a State must explicitly declare its consent to the congressionally mandated conditions. Rather, a State is *assumed* to have "voluntarily and knowingly accept[ed] the terms of the 'contract'" if Congress defines the applicable conditions unambiguously and the State thereafter accepts the money. There is consequently ample support in this Court's jurisprudence for our contention that a State's conduct may under appropriate circumstances be treated as a waiver of Eleventh Amendment immunity, even though the State has made no express declaration of its willingness to be sued in federal court.[2]

3. Respondent also argues (Br. 33-34) that even if Congress could permissibly require a waiver of Eleventh Amendment immunity as a condition of receiving federal funds, the present case is different

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[2] Contrary to the contention of amicus National Conference of State Legislatures, et al. (Br. 18), there is no inconsistency between the waiver principle recognized in *Parden* and the established rule that the United States' "waiver of sovereign immunity cannot be implied but must be unequivocally expressed." *United States* v. *Mitchell*, 445 U.S. 535, 538 (1980) (internal quotation marks omitted). The import of the latter rule is simply that an ambiguous federal statute will not be construed to waive the federal government's sovereign immunity. See *United States* v. *Nordic Village, Inc.*, 503 U.S. 30, 33-34 (1992). In the context of state waivers of Eleventh Amendment immunity, that principle is honored so long as the governing federal statute makes unmistakably clear that a State, by engaging in specified voluntary conduct, will subject itself to suit in federal court. The State's conduct itself constitutes an "unequivocal[] express[ion]" of the State's consent to be sued—just as a State's receipt of federal funds is treated as an acceptance of any "contractual" conditions that are unambiguously set forth in the governing federal law.

because Congress has not provided any *quid pro quo* in return for the State's amenability to suit in federal court. Although we believe that the propriety of an implied waiver of Eleventh Amendment immunity is particularly clear when the State thereby procures advantages not available to private parties, Congress need not provide such distinct advantages in order for the waiver to be valid.[3] Indeed, even the dissenting Justices in *Parden* "agree[d] that it is within the power of Congress to condition a State's permit to engage in the interstate transportation business on a waiver of the State's sovereign immunity from suits arising out of such business." 377 U.S. at 198 (White, J., joined by Douglas, Harlan, and Stewart, JJ., dissenting); see Gov't Br. 22-23.

As our opening brief explains (at 28), moreover, respondent (no less than other market participants) does obtain significant benefits from the fair-competition requirements of the Lanham Trade-Mark Act (Lanham Act). And contrary to respondent's contention (Br. 34), the distinction between waiver and abrogation can be preserved without requiring that the State receive some special advantage (*i.e.*, a benefit not available to the public) in return for its waiver of Eleventh Amendment immunity. As the Seventh Circuit has explained, the difference between waiver and abrogation "turns on the voluntariness of the state's choice in the waiver situation—a choice between

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[3] As we explain in our opening brief (at 19-20), for example, the courts of appeals have generally upheld the validity of the Bankruptcy Code provision (11 U.S.C. 106(b)) that treats a State's filing of a proof of claim as a waiver of sovereign immunity with respect to specified claims, even though that provision confers no special advantages upon the States.

waiving its immunity or foregoing participation in the federal statutory scheme at issue. When Congress gives states a genuine choice, clearly stated, as to whether or not to waive their sovereign immunity, the doctrine of constructive waiver survives *Seminole Tribe*." *MCI Telecomms. Corp.* v. *Illinois Commerce Comm'n*, 168 F.3d 315, 321 (7th Cir. 1999). So long as particular state conduct is sufficiently removed from core government functions that it can properly be deemed a voluntary choice, Congress may condition the State's participation in that activity on a waiver of Eleventh Amendment immunity, regardless of whether the State receives a *quid pro quo* that is not provided to the general public.[4]

4. Respondent and one of its amici argue that (a) no coherent distinction can be drawn between state activities that are and those that are not sufficiently voluntary to constitute a valid implied waiver of Eleventh

[4] Congress might have prohibited a State-run enterprise like respondent from operating in interstate commerce unless and until the State had executed an appropriate "express" waiver of Eleventh Amendment immunity. The remedial provisions of the Trademark Remedy Clarification Act, Pub. L. No. 102-542, 106 Stat. 3567 (TRCA) are simply an alternative means of accomplishing the same objective. Cf. *Parden*, 377 U.S. at 198 (White, J., joined by Douglas, Harlan, and Stewart, JJ., dissenting) ("I agree that it is within the power of Congress to condition a State's permit to engage in the interstate transportation business on a waiver of the State's sovereign immunity from suits arising out of such business. Congress might well determine that allowing regulable conduct such as the operation of a railroad to be undertaken by a body legally immune from liability directly resulting from these operations is so inimical to the purposes of its regulation that the State must be put to the option of either foregoing participation in the conduct or consenting to legal responsibility for injury caused thereby.").

Amendment immunity, and (b) if such a line can be drawn, respondent's own activities represent the performance of core governmental functions rather than the operation of a commercial enterprise. Those arguments are erroneous.

a. Relying primarily on *Garcia* v. *San Antonio Metropolitan Transit Authority*, 469 U.S. 528 (1985), amicus Regents of the University of California argues (Br. 13-17) that no principled distinction can be drawn between "voluntary" state activities and traditional governmental functions, and that the Court's prior efforts to draw such distinctions have been abandoned as unworkable. That contention is incorrect. The *Garcia* Court did conclude that the susceptibility of state and local governmental entities to substantive federal regulation should not turn on whether those entities perform "traditional governmental functions," and it stressed the difficulty of making that determination in a consistent fashion. In other circumstances, however, this Court has recognized that different categories of activities undertaken by state governments are subject to different legal rules, depending on their relation to core governmental functions.

Thus, as we explain in our opening brief (at 29-30), a State may generally give its own citizens preferential treatment when it acts as a "market participant," even though it is prohibited from doing so when it acts in its regulatory capacity. That rule considerably enhances the States' flexibility and in part reflects the premise that "state proprietary activities may be, and often are, burdened with the same restrictions imposed on private market participants." *Reeves, Inc.* v. *Stake*, 447 U.S. 429, 439 (1980). A similar distinction underlies the application of *parens patriae* principles to state governments. In *Alfred L. Snapp & Son, Inc.* v. *Puerto Rico*

ex rel. Barez, 458 U.S. 592 (1982), the Court observed that a State has both "sovereign" and "proprietary" interests, and that "[a]s a proprietor, it is likely to have the same interests as other similarly situated proprietors." *Id.* at 601. The Court held (*id.* at 601-602) that a State may maintain a *parens patriae* suit only when it asserts a sovereign or quasi-sovereign interest. Indeed, this Court has applied a similar mode of analysis in determining the rights of the federal government as a litigant. See *United States* v. *California*, 507 U.S. 746, 757-758 (1993) (susceptibility of United States to state statute of limitations may vary depending on whether the government appears in the case "in its sovereign capacity" or as the subrogee of a private contractor).[5]

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[5] Amicus Regents of the University of California errs in relying (see Br. 14) on *New York* v. *United States*, 326 U.S. 572 (1946). The amicus correctly notes that all eight Justices who participated in that case rejected the distinction between "governmental" and "proprietary" activities as a basis for determining the susceptibility of States to federal taxation. The Court did not, however, embrace the proposition that *no* distinction between various categories of state activities could permissibly be made. To the contrary, four of the six Justices who comprised the majority specifically stated that "a federal tax which is not discriminatory as to the subject matter"—*i.e.*, one that applies to state and private taxpayers alike—"may nevertheless so affect the State, merely because it is a State that is being taxed, as to interfere unduly with the State's performance of its sovereign functions of government." *Id.* at 587 (Stone, C.J., joined by Reed, Murphy, and Burton, JJ., concurring). Those Justices concluded that "when * * * the subject of taxation is State property or a State activity," the Court must "consider whether such a non-discriminatory tax unduly interferes with the performance of the State's functions of government. If it does, then the fact that the tax is non-discriminatory does not save it." *Id.* at 588. At the same time, those four Justices rejected the contention that all activities

b. Respondent contends (Br. 35-40) that its own operations are integral to the State's fulfillment of its educational mission and are therefore properly characterized as "traditional" or "core" governmental functions. We agree that the operation of schools and the establishment of educational policy have traditionally been among the most important functions undertaken by state governments. But the services provided by respondent are not themselves traditional state activities (Florida Prepaid did not commence operations until 1988); they are separate and distinct from the State's operation of public colleges and universities; and they are not meaningfully different from services provided by respondent's private competitors.

Respondent asserts (Br. 39) that its "contracts are not investment vehicles; they are agreements to purchase college services by advance payment." That characterization is at least potentially misleading. Respondent is a corporate entity separate and distinct

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conducted by state officials should be immune from federal taxation, explaining that "[t]he national taxing power would be unduly curtailed if the State, by extending its activities, could withdraw from it subjects of taxation traditionally within it." *Id.* at 589.

The basis for those Justices' rejection of the "governmental"/"proprietary" distinction is not altogether clear. The Justices may have found the dichotomy to be a false one, since even "proprietary" state activities are also "governmental" in that they are conducted by public officials and are presumably intended to further public purposes. In any event, four of the six Justices in the *New York* majority unequivocally embraced an approach under which the susceptibility to federal taxation of state activities turns on their centrality to the operations of state government. See also *Massachusetts* v. *United States*, 435 U.S. 444, 457-458 & nn. 14-15 (1978) (plurality opinion) (discussing *New York*); *South Carolina* v. *Baker*, 485 U.S. 505, 523-524 n.14 (1988) (same).

from any of the State's colleges and universities. It does not assume a contractual obligation to provide "college services" (*e.g.*, classroom instruction) to the beneficiaries of its advance payment contracts. Rather, its primary obligation is "[t]o make payments to state postsecondary institutions on behalf of qualified beneficiaries" in accordance with the contractual terms. Fla. Stat. Ann. § 240.551(16)(a) (West Supp. 1999). Moreover, the beneficiary is permitted to utilize the funds available under the contract for attendance at an out-of-State college or university.[6] Although the services that respondent provides undoubtedly enhance the ability of Florida residents to derive the benefits of the State's postsecondary educational institutions, those services do not involve the actual operation of schools or the establishment of educational policy, and they do not differ in any fundamental way from the services offered by petitioner College Savings Bank.

Other features reinforce the similarity between respondent and purveyors of competing investment pro-

[6] "A qualified beneficiary may apply the benefits of an advance payment contract toward an eligible out-of-state college or university. An out-of-state college or university which is not for profit and is accredited by a regional accrediting association, and which confers baccalaureate degrees, shall be eligible for such application. The board shall transfer, or cause to have transferred, an amount not to exceed the redemption value of the advance payment contract or the original purchase price plus 5 percent compounded interest, whichever is less, after assessment of a reasonable transfer fee." Fla. Stat. Ann. § 240.551(10)(b) (West Supp. 1999); see also Florida Prepaid Master Covenant § 3.05 ("The Board may transfer [to an eligible out-of-state institution] an amount not to exceed the current rates at Florida public institutions, or the original purchase price plus 5% interest compounded annually, whichever is less, after assessment of a $25.00 transfer fee.").

ducts. Respondent was "created as a body corporate with all the powers of a body corporate for the purposes [of administering the program]." Fla. Stat. Ann. § 240.551(5)(a) (West Supp. 1999). To carry out its functions, respondent may engage in commercial and business transactions with the public, and it has the power to "[s]ue and be sued." See Fla. Stat. Ann. § 240.551(7)(b) (West Supp. 1999).[7] Respondent is directed by statute to employ "a centralized marketing agent * * * for the marketing of the program." Fla. Stat. Ann. § 240.551(6)(d) (West Supp. 1999). Finally, as we note in our opening brief (at 27), respondent has been highly profitable, amassing a surplus of more than $184 million during the first seven years of its operations. Pet. App. 49a.[8]

[7] In *Federal Housing Administration* v. *Burr*, 309 U.S. 242 (1940), this Court suggested that when the legislature "launche[s] a governmental agency into the commercial world and endow[s] it with authority to 'sue or be sued,'" it is presumed that the agency is to be treated like any other business entity and that it is "not less amenable to judicial process than a private enterprise under like circumstances would be." *Id.* at 245. See also *FDIC* v. *Meyer*, 510 U.S. 471, 481 (1994) ("agencies 'authorized to "sue and be sued" are presumed to have fully waived immunity'") (quoting *International Primate Protection League* v. *Administrators of Tulane Educ. Fund*, 500 U.S. 72, 86-87 n.8 (1991)); *Loeffler* v. *Frank*, 486 U.S. 549, 554-555 (1988). We recognize that a State's general waiver of sovereign immunity for one of its agencies does not itself constitute a waiver of Eleventh Amendment immunity from suit in federal court. *Florida Dep't of Health & Rehabilitative Servs.* v. *Florida Nursing Home Ass'n*, 450 U.S. 147, 150 (1981). The existence of a "sue and be sued" clause nevertheless suggests that the State regards respondent as an entity functionally akin to a private business corporation.

[8] Respondent asserts (Br. 40 n.17) that it "has not earned a profit merely because it holds a reserve to pay future education expenses." The amici States of Ohio, et al., go further, characteriz-

5. Neither the Lanham Act (which prohibits false advertising of goods and services marketed in interstate commerce) nor the TRCA (which authorizes private Lanham Act suits against state defendants in federal court, see Gov't Br. 2-5), is specifically directed at prepaid tuition programs or commercial investment products. Respondent argues (Br. 41) that because "[t]he TRCA does not regulate state prepaid tuition programs or any related financial programs or products," but "simply applies to commerce *in general*," the Act "cannot reasonably be interpreted to alert States to the possibility of the loss of sovereign immunity resulting from participation in a defined type of commerce." Respondent does not and could not dispute, however, that both the Lanham Act and the TRCA unambiguously apply to its operations. See Gov't Br. 25-26. The breadth of coverage of the relevant statutes in no way deprived respondent of fair warning that it could be subjected to suit in federal court for conduct that violated the Lanham Act.[9]

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ing respondent's program (Br. 11) as "a form of financial aid for higher education." As the district court explained, however, "[t]he $184 million represents the present value amount by which 'the expected value of assets exceeds the expected value of liabilities' as stated by Ernst & Young, [respondent's] accounting firm." Pet. App. 49a n.12. The $184 million is therefore "profit" under any reasonable understanding of that term, whether or not respondent was established for a profit-making objective.

[9] Respondent's reliance (Br. 39 & n.16) on Section 1806 of the Small Business Job Protection Act of 1996, Pub. L. No. 104-188, 110 Stat. 1755, is misplaced. Section 1806 reflects Congress's determination that State-run prepaid tuition programs should receive tax advantages not available to their private competitors. Congress declined, however, to take the further step of exempting such programs from either the Lanham Act's substantive requirements or the remedial provisions of the TRCA. To the extent that Section 1806 is relevant at all, it supports rather than

Respondent also points out (Br. 43) that the TRCA was not enacted until 1992, four years after respondent began its operations. Respondent argues (Br. 44) that "[n]othing in *Parden* suggests that Congress can extract a *retroactive* waiver from States engaged in activities newly subject to legislation." Section 4 of the TRCA states, however, that the Act "shall take effect with respect to violations that occur on or after the date of the enactment of this Act [October 27, 1992]." 106 Stat. 3568 (15 U.S.C. 1114 note). The TRCA therefore does not subject respondent to any "retroactive" obligation, notwithstanding the fact that respondent commenced its operations before the statute was enacted.

There is, in sum, no constitutional principle entitling respondent to participate in a commercial market under the enjoyment of the Lanham Act's protections and yet to spurn the reciprocal obligation clearly imposed by Congress of amenability to the remedial as well as the substantive provisions of that Act to assure fairness to all who compete in that market.

* * * * *

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undermines our position, by (1) demonstrating that Congress is capable of making nuanced judgments regarding the appropriate treatment of State-run commercial enterprises (and the extent to which such enterprises should be subject to the rules that govern their private competitors), and (2) reinforcing our contention (cf. Gov't Br. 28-29) that respondent's amenability to suit in federal court represents a reasonable price for benefits afforded by federal law.

For the reasons stated above, and in the opening brief for the United States, the judgment of the court of appeals should be reversed and the case remanded for further proceedings.

Respectfully submitted.

SETH P. WAXMAN
Solicitor General

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Supreme Court, U.S.
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No. 98-149

In The

Supreme Court of the United States

October Term 1998

COLLEGE SAVINGS BANK,
Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

REPLY BRIEF FOR PETITIONER

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ & GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

Attorneys for Petitioner

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INTRODUCTION

Our Declaration of Independence proclaims that we are endowed with unalienable rights, including "Life, Liberty and the pursuit of happiness." Under Thomas Jefferson's formulation, economic opportunity and "[t]he right to obtain and possess property was at the heart of the pursuit of happiness." James W. Ely, Jr., *The Guardian Of Every Other Right, A Constitutional History of Property Rights* 29 (2d ed. 1998). Further, Thomas Jefferson's formulation was "significant because it stressed the importance of acquiring property rather than just the protection of existing property arrangements." *Id.*

Property rights were also a central concern to the framers of the Constitution. *See* The Federalist No. 10 (James Madison) (Isaac Kramnick ed., 1987) ("The diversity in the faculties of men, from which the rights of property originate, is not less an insuperable obstacle to a uniformity of interests. The protection of these faculties is the first object of government.") This case tests whether Congress can require the States to be responsible for damages caused by the deprivation of property rights.

In its brief, Respondent Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid") concurs in the finding of the court of appeals that a business is a property interest protected by the Fourteenth Amendment, a finding compelled by the decisions of this Court. The proposition that a business is a property right, however, is shorn of much of its significance if that business is unable to protect itself against false advertising and other unfair competition.

Florida Prepaid simply ignores the decisions of this Court that give a broad reading to the scope of property rights protected by the Fourteenth Amendment. Those decisions have found, virtually without exception, that economic rights are property rights entitled to Fourteenth Amendment protection. In addition, Congress, in enacting the Lanham Act, specifically

relied upon decisions of this Court explicitly holding that unfair competition serves to damage property interests.

The congressional abrogation in this case, serving merely to make the States answerable for damages caused by unfair competition, does not intrude upon the regulatory authority of the States. The Lanham Act merely provides a means of redress for damages caused to a business by conduct long-recognized as unlawful. As a legal and practical matter, the States face no danger of being sued for violations of the Lanham Act when engaged in normal governmental functions, but only when they enter into commerce, as proprietors, in competition with the private sector.

The congressional conclusion that the States should be held to the same standard of honest dealing to which the private sector is bound is certainly not an extreme application of the Fourteenth Amendment's protections. There are no policy considerations that should serve to insulate Florida Prepaid from the consequences of its deliberate entry into interstate commerce in competition with the private sector. Upholding the validity of the congressional action in this case has no significant implications for federalism and would not affect the appropriate balance between federal and state power.

ARGUMENT

I. THIS COURT CONSISTENTLY HAS RECOGNIZED THE BROAD SCOPE OF CONGRESSIONAL POWER UNDER § 5 OF THE FOURTEENTH AMENDMENT.

Florida Prepaid characterizes *Fitzpatrick v Bitzer*, 427 U.S. 445 (1976), as the case in which "this Court first announced the doctrine that Congress may abrogate Eleventh Amendment immunity pursuant to the Fourteenth Amendment. . . ." Brief at 11. *Fitzpatrick*, however, is far from the first decision by this

Court construing the breadth of Congress' powers under the Fourteenth Amendment. *Fitzpatrick*, and other decisions by this Court, establish that Florida Prepaid fundamentally misconstrues Congress' § 5 powers.

Florida Prepaid argues that Congress has no "authority to craft its own applications of the Due Process Clause. . . ." Brief at 14. That is a misformulation. What Congress cannot do is "to decree the substance of the Fourteenth Amendment's restrictions on the States." *City of Boerne v. Flores*, 521 U.S. 507, 519 (1997). Thus, this Court found unconstitutional a congressional enactment which altered "the meaning of the Free Exercise Clause. . . ." *Id.* at 519.

Congress, however, clearly does have authority to "craft its own applications" of the Fourteenth Amendment, as this Court has held in numerous cases. *See, e.g., City of Boerne*, 521 U.S. at 535-36 ("When Congress acts within its sphere of power and responsibilities, it has not just the right but the duty to make its own informed judgement on the meaning and force of the Constitution. . . . Our national experience teaches that the Constitution is preserved best when each part of the Government respects both the Constitution and the proper actions and determinations of the other branches."); *Fitzpatrick*, 427 U.S. at 455 ("There can be no doubt that this line of cases has sanctioned intrusions by Congress . . . into the judicial, executive, and legislative spheres of autonomy previously reserved to the States."); *Katzenbach v. Morgan*, 384 U.S. 641, 651 (1966) ("Correctly viewed, § 5 is a positive grant of legislative power authorizing Congress to exercise its discretion in determining whether and what legislation is needed to secure the guarantees of the Fourteenth Amendment."); and *Ex parte Virginia*, 100 U.S. 339, 345-46 (1879) ("Whatever legislation is appropriate, that is, adapted to carry out the objects the amendments have in view . . . is brought within the domain of congressional power."). *See also Lopez v. Monterey County*, 119 S. Ct. 693, 703 (1999).

The Religious Freedom Restoration Act of 1993 ("RFRA"), 42 U.S.C. § 2000bb *et seq.* was found to be unconstitutional because it sought to overturn this Court's decision in *Employment Div., Dep't of Human Resources v. Smith*, 494 U.S. 872 (1990), holding that the right to the free exercise of religion did not include "a constitutional right to ignore neutral laws of general applicability." *City of Boerne*, 521 U.S. at 513. RFRA served to alter the meaning of the Constitution, and therefore, could not be deemed to be an Act enforcing the Constitution. *Id.* at 519.

The finding that Congress had sought to change this Court's construction of the substantive requirements of the Constitution, in and of itself, should have been sufficient to invalidate RFRA. Significantly, however, this Court also provided a detailed analysis of why the Act was not an appropriate exercise of Congress' preventive or remedial powers under § 5. The Court's discussion highlights the extent to which the modest remedial action represented by the Trademark Remedy Clarification Act, Pub L. No. 102-542, 106 Stat. 3567 (1992) ("TRCA"), bears no relationship to RFRA.

This Court found that RFRA "pervasively prohibits constitutional state action in an effort to remedy or to prevent unconstitutional state action. . . ." *Id.* at 533. The Court concluded that: "Remedial legislation under § 5 'should be adapted to the mischief and wrong which the [Fourteenth] [A]mendment was intended to provide against.'" (citation omitted). *Id.* at 532. Instead, RFRA served to intrude "at every level of government, displacing laws and prohibiting official actions of almost every description and regardless of subject matter." *Id.* at 532.

The TRCA neither prohibits laws nor displaces any type of state law nor prohibits official actions "of almost every description." The reach of the TRCA is exceedingly narrow. It merely allows the States to be held responsible in federal courts for violations of the Lanham Act, providing remedies for

competing businesses for legal wrongs long-recognized in common law.[1] *See* College Savings Bank ("CSB"), Opening Brief at 17-18. The States will encounter a possible exposure to Lanham Act actions, from this limited class of competing businesses, only when they enter into the commercial marketplace. Making the States responsible for false advertising and other forms of unfair competition proscribed by the Lanham Act would not impose a "heavy litigation burden."

Florida Prepaid misstates the issue before the Court by arguing that the "real question is whether every state action that affects a business negatively can be considered a potential deprivation of property . . . within the meaning of the Constitution." Brief at 14. Clearly, within the exercise of a state's regulatory power, actions can be taken that "affects a business negatively" that do not implicate the Constitution. False representations about goods and services offered in commerce, however, have nothing to do with the States' regulatory authority.

Making the States liable for violations of the Lanham Act constitutes no "intrusion into the States' traditional prerogatives and general authority to regulate for the health and welfare of their citizens." *City of Boerne*, 521 U.S. at 534. The Act in no way affects the "general regulatory power" of the States, nor does it prohibit "constitutional state action." *Id.* at 533. Instead, it reflects "proportionality [and] congruence between the means adopted and the legitimate end to be achieved." *Id.* at 533.

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[1] Florida Prepaid concedes that remedies for unfair competition grow out of the common law. Brief at 15. Thus, in enacting § 43(a) of the Lanham Act, Congress was simply providing a federal codification of the common law tort of unfair competition. *See e.g., United Drug Co. v. Rectanus Co.*, 248 U.S. 90 (1918), and *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916). Those cases recognized that unfair competition invades property rights long before the adoption of the Lanham Act.

II. THE TRCA, EXTENDING TO THE STATES THE LANHAM ACT'S PROTECTION OF PROPERTY RIGHTS, IS A VALID EXERCISE OF CONGRESS' FOURTEENTH AMENDMENT POWER.

The Lanham Act was enacted by Congress pursuant to its Article I commerce powers.[2] The TRCA, making the States liable for the Act, is a valid exercise of Congress' authority under the Fourteenth Amendment. *See* CSB Opening Brief at 25-31. Florida Prepaid's principal argument, that because the Lanham Act was enacted pursuant to Congress' Article I commerce power, it cannot be enforced against the States pursuant to the provisions of § 5 of the Fourteenth Amendment, is a misinterpretation of Congress' constitutional authority.[3] Brief at 7-17.

Florida Prepaid now concedes "that a business constitutes property. . . ." Brief at 14. Florida Prepaid then argues, however, that "[t]his Court has never held that the Due Process Clause of the Fourteenth Amendment protects the right to be

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[2] More significantly, there has never been any question but that enactment of the Lanham Act was within Congress' commerce power, an important distinction from *City of Boerne*. In *City of Boerne*, the Court was not called upon directly to decide upon the constitutionality of abrogating the states' immunity under the Eleventh Amendment, but rather the constitutionality of the underlying statute, RFRA, and the validity of the Act's intrusion into regulatory areas within the control of the States.

[3] Florida Prepaid also continues to suggest that Congress' power under § 5 of the Fourteenth Amendment is to be determined in part by the nature of the § 1 right in issue. *See* Brief at 11. This Court has long since rejected that reading. *See, e.g., Lynch v. Household Finance Corp.*, 405 U.S. 538, 552 (1972) ("In fact a fundamental interdependence exists between the personal right to liberty and the personal right in property. Neither could have meaning without the other. That rights in property are basic civil rights has long been recognized.").

free in one's business from a competitor's false advertising if the alleged false advertising comes from a state actor." Brief at 14. That, of course, is the very issue before the Court in this case, *i.e.*, the constitutionality of the TRCA which, for the first time provides a remedy for false advertising by "a state actor." The significant fact is that this Court repeatedly has found that a wide variety of economic interests constitute "property" for the purposes of § 1 of the Fourteenth Amendment. Clearly, it is within Congress' § 5 powers to enact remedial legislation to enforce any property rights recognized under § 1.

Florida Prepaid simply chooses to ignore the decisions of this Court that have established a wide variety of economic rights as constituting property within the protection of the Fourteenth Amendment. *See* CSB Opening Brief at 18-21. *See e.g., Logan v. Zimmerman Brush Co.*, 455 U.S. 422, 431 (1982), citing to decisions by this Court finding a wide variety of interests to be constitutionally protected property, ranging from a horse trainer's license to welfare benefits. As found in *Logan*, "the types of interests protected as property are varied, and as often as not, intangible, relating to the whole domain of social and economic fact." (citations and internal quotation marks omitted). *Id.* at 430. *See also Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003 (1984) ("[A] trade-secret [is a] property right. . . ."); *Mullane v. Central Hanover Tr. Co.*, 339 U.S. 306, 313 (1950) (Finding that a cause of action embodies property interests protected by the Fourteenth Amendment); and *Truax v. Corrigan*, 257 U.S. 312, 354 (1921) (Brandeis, J., dissenting) ("This right to carry on business--be it called liberty or property--has value; and he who interferes with the right without cause renders himself liable.").

As shown by the cases relied upon by CSB, the concept of property protection under the Constitution is more extensive than merely protecting a "thing." The fact that in many circumstances the courts have had to resort to defining property as a "bundle of rights", demonstrates the breadth of the concept of property. *See e.g., Kaiser Aetna v. United States*, 444 U.S.

164, 176 (1979). Far from being an extreme "position" as charged by Florida Prepaid, CSB's position that the Lanham Act's false advertising provisions serve to protect Fourteenth Amendment property rights is within the mainstream of this Court's holdings.

Florida Prepaid attempts to dismiss CSB's reliance upon this Court's broad reading of the scope of economic rights protected by the Fourteenth Amendment by arguing that "simply labeling an interest as 'property' [does not confer] upon Congress the power to enforce such interests against the States. . . ." Brief at 17. It is this Court, however, that has found a wide variety of economic interests to be "property." Those findings are not properly characterized as "labeling." Rather, they constitute this Court's construction of the scope of the property rights protected by the Fourteenth Amendment.

Similarly, Florida Prepaid continues to attempt to bifurcate property rights into those which are subject to Congress' remedial powers and those which are not. *See, e.g.*, Brief at 17 ("This case simply does not involve property that Congress may protect under the Fourteenth Amendment."). That position mirrors the court of appeals' formulation. Both the court of appeals and Florida Prepaid shrink from simply stating that CSB's right to be free from unfair competition is not a "property right", presumably in recognition of the broad scope of property rights established by this Court's decisions. There is no basis, however, for contending that Congress cannot exercise its § 5 remedial powers to protect *all* "property rights."

Florida Prepaid claims that "[t]here is no historical tradition linking the Lanham Act and the Fourteenth Amendment." Brief at 10. The Lanham Act was enacted under Congress' commerce power and there was no reason for Congress to rely upon any other constitutional power. Thus, referencing a lack of "historical tradition" between the Lanham Act and the Fourteenth Amendment is a meaningless observation. There is,

however, a "historical tradition" linking the Lanham Act and the very type of property interests asserted by CSB.

The Senate Report accompanying the Lanham Act explicitly relied upon this Court's decisions in *United Drug Co. v. Rectanus*, 284 U.S. 90 (1918), and *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916). *See* S. Rep. No. 1333 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275. In *Hanover Milling Co.*, this Court found that "the common law of trademarks is but a part of the broader law of unfair competition." *Id.* at 413. Further, the Court explicitly held that "a man's right to the continued enjoyment of his trade reputation and the good-will that flows from it, free from unwarranted interference by others, is a property right. . . ." *Id.* at 413. Obviously, one type of "unwarranted interference by others" is the false advertising made actionable by § 43(a) of the Lanham Act. Thus, from its inception, there has been a "historical tradition" that the Lanham Act's protection against unfair competition is a property right.

Florida Prepaid also seeks to dismiss the significance of this Court's holding in *International News Service v. Associated Press*, 248 U.S. 215 (1918). It does so in part by failing to provide the full text of the Court's holding. Brief at 13 n.2. Specifically, immediately following the language quoted by Florida Prepaid, the Court states: "the right to acquire property by honest labor or the conduct of a lawful business is as much entitled to protection as the right to guard property already acquired." *Id.* at 236.

Similarly, the arguments and the case law relied upon by the United States to support its position that Florida Prepaid's misrepresentation of its own goods and services does not rise to the level of protectable property do not support its position. U.S. Brief at 30-33. In *Daniels v. Williams*, 474 U.S. 327, 328 (1986) this Court concluded that "the Due Process Clause is simply not implicated by a *negligent* act of an official causing unintended loss of or injury to life, liberty, or property."

(emphasis by the Court). Florida Prepaid, however, did not engage in false advertising through negligence. Rather, it deliberately chose the methods and materials used to promote its product.[4] Even more obviously, *Estelle v. Gamble*, 429 U.S. 97 (1976), holding that medical malpractice does not constitute cruel and unusual punishment in violation of the Eighth Amendment, has no application to this case.

The United States is also wrong in its conclusion that, "Florida Prepaid's alleged misrepresentations concerning its own products effected no intrusion on any tangible or intangible interests over which CSB possesses exclusive dominion." U.S. Brief at 32. To the contrary, CSB does possess "exclusive dominion" over its business. Florida Prepaid's misrepresentation of the nature of its products and services inevitably serves to effect an intrusion upon that business. The United States correctly notes that one type of intangible property right is "the right to be free from specified conduct by others." U.S. Brief at 31. That definition of a recognized intangible property right precisely fits the right to be free from the economic injury caused by false advertising, the property right asserted by CSB in this case.

Florida Prepaid argues that to uphold the congressional authority to enact the TRCA would be to adopt a theory of the Fourteenth Amendment that would have compelled a different result in *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996). Brief at 15 n.3. The argument is a red herring. The Indian Gaming Regulatory Act invalidated in *Seminole Tribe* bears no relationship to the statute here in issue. The Act was directed solely at the states and attempted to force them to engage in negotiating agreements with the Tribes. Florida had been purely passive and had not through legislative, executive, judicial or any other means infringed upon any property interests of the

[4] Indeed, Florida Prepaid continues to deny that any of the representations addressed by the CSB complaint are false. *See* J. App. 25-39, e.g. ¶14, J. App. 29 ("Defendant ...denies that its marketing materials contain any false or misleading statements.")

Seminole Tribe. As found by the Eleventh Circuit, the Act merely "establishes the process and standards by which gambling may be conducted on Indian lands," and thus, "creates no liberty or property interests and cannot implicate the Fourteenth Amendment." *Seminole Tribe of Fla. v. State of Florida*, 11 F.3d 1017, 1025 (11th Cir. 1994), *aff'd*, 517 U.S. 44 (1996). Unlike the passive role of the State in *Seminole Tribe*, here Florida Prepaid has taken action that directly harms CSB's liberty and property interests In sum, the congressional enactment held to be unconstitutional in *Seminole Tribe* bears no relationship to the TRCA, by which Congress sought to ensure that the States be held accountable for economic harm to a business caused by violations of § 43(a) of the Lanham Act.

Florida Prepaid attempts to insulate itself from the TRCA by making the remarkable argument that "unfair competition is merely a form of competition. It is part of the rough and tumble of the economic world that all competitors expect to encounter occasionally. . . ." Brief at 15. This statement is made by Florida Prepaid in the context of defending the court of appeals' erroneous reliance upon *Hegeman Farms Corp. v. Baldwin*, 293 U.S. 163, 170 (1934) ("The Fourteenth Amendment does not protect a business against the hazards of competition."). Florida Prepaid's conclusion represents a tortured reading of *Hegeman Farms* in which the Court concluded that it was "unable to infer from [plaintiff's] fragmentary data, that there has been anything perverse or arbitrary in the action of the Board." *Id.* at 170.

The economic system of this country is premised upon the "rough and tumble" of competitive free enterprise, but we have also recognized that certain rules of fair play must be imposed to avoid a serious distortion of the system. Protecting against unfair competition is one of the most important of those rules. *See* Restatement (Third) of Unfair Competition § 1g (1995) ("A primary purpose of the law of unfair competition is the identification and redress of business practices that hinder rather than promote the efficient operation of the market.").

See also International News Service, 248 U.S. at 235-36 ("[E]ach party is under a duty so to conduct its own business as not unnecessarily or unfairly to injure that of the other.") (citation omitted). In sum, *Hegeman Farms* certainly does not stand for the proposition that a "state actor," such as Florida Prepaid, is free to engage in false and deceptive statements as "merely a form of competition."

III. THE POSSIBLE AVAILABILITY OF RELIEF IN STATE COURTS DOES NOT SERVE TO INVALIDATE THE TRCA.

Florida Prepaid contends that the TRCA is unconstitutional because relief for violations of the Lanham Act, including unfair competition, might be available in state courts. Brief at 18-22. Florida Prepaid contends that the TRCA is therefore "addressing a nonexistent constitutional harm." *Id.* at 22. Florida Prepaid's premise is wrong. The decisions of this Court, upon which it relies, do not support its position. Further, the availability of relief by bringing action in state courts is dubious, at best.[5]

The principle that the possible existence of a state remedy cannot serve to invalidate a federal remedy is well established. In *Monroe v. Pape*, 365 U.S. 167, 172 (1961), *overruled on other grounds*, *Monell v. New York City Dep't of Social Services*, 436 U.S. 658 (1978), this Court rejected the contention that a federal remedy could not be invoked based upon the contention that "the courts of Illinois are available to

[5] Florida Prepaid claims that its Lanham Act case could have been brought in the state courts of Florida. Brief at 20, 21. Lanham Act cases, however, are virtually never brought in state courts and it is a wholly undeveloped jurisprudence. The inadequacy of using the state courts is well demonstrated by the fact that the State of Florida has itself brought Lanham Act actions in federal court. *See Univ. of Florida v. KPB, Inc.*, 89 F.3d 773 (11th Cir. 1996); and *State of Florida v. Real Juices, Inc.*, 330 F. Supp. 428 (M.D. Fla. 1971).

give petitioners that full redress which the common law affords. . . ." As concluded by the Court:

> It is no answer that the State has a law which if enforced would give relief. The federal remedy is supplementary to the state remedy and the latter need not be first sought and refused before the federal one is invoked.

Id. at 183.

The enactment of TRCA was necessary because state remedies are "limited in scope and inconsistent to such an extent that they serve as a meaningless substitute for Federal remedies." S. Rep. No. 102-286, at 6 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3092. *See Alexander v. Gardener – Denver Co.*, 415 U.S. 36, 48-49 (1974) ("Moreover, the legislative history of Title VII manifests a congressional intent to allow an individual to pursue independently his rights in above Title VII and other applicable state and federal statutes. The clear inference is that Title VII was designed to supplement, rather than supplant, existing laws and institutions relating to employment discrimination.") (footnote omitted); and *Zinermon v. Burch*, 494 U.S. 113, 124 (1990) ("[O]verlapping state remedies are generally irrelevant to the question of the existence of a cause of action under § 1983.").

Florida Prepaid also overstates the availability of a state remedy. Although conceding that the state's liability under Florida law is limited to $200,000 per instance, Brief at 19, the fact is that CSB would be limited to no more than $100,000. Fla. Stat. § 768.28(5) ("Neither the state nor its agencies or subdivision shall be liable to pay a claim or a judgement by any one person which exceeds the sum of $100,000. . . ."). Moreover, despite the claims made by Florida Prepaid, the statute waiving immunity for suits in state courts has been narrowly construed. *County of Brevard v. Miorelli Engineering, Inc.*, 677 So. 2d 32, 34 (1996) ("The legislature

has waived sovereign immunity in tort for personal injury, wrongful death, and injury or loss of property. . . . Fraud in the inducement causing only economic loss does not fit within any of those categories of injury or loss enumerated in this statute.") Therefore, the availability of damages of no more than $100,000, an amount which in itself is facially inadequate, may well not be available for economic loss arising from a claim of false advertising.

Florida Prepaid also contends that CSB might be able to obtain relief from a "reverse condemnation action against the State for just compensation." Brief at 19. First, such actions are premised upon a "takings" theory that CSB has not invoked. The jurisprudence of "takings" is not a fruitful way of examining the deprivation Florida Prepaid has caused by its violation of the unfair competition provisions of § 43(a) of the Lanham Act.[6] CSB does not contend that its entire property, *i.e.*, its "business" has been "taken." Rather, Florida Prepaid's false advertising has served to deprive CSB of only some portion of its customers, earnings and revenues.[7]

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[6] There has been a recognition by this Court that there is a distinction between "deprivation" as the term is used in the Fourteenth Amendment and "taking" as that term is used in the Fifth Amendment. *Eastern Enterprises v. Apfel*, 118 S. Ct. 2131, 2154-60, 2161-63 (1998) (Kennedy, J. concurring in the judgment and dissenting in part, and Breyer, J., dissenting). The Court, in a plurality decision, found that a taking had taken place in violation of the Fifth Amendment, even though not presenting the normal case "in which the government directly appropriates private property for its own use." *Id.* at 2146. It is significant, however, that in *Eastern Enterprises* the fact that the challenged congressional regulation had an "economic impact" was a pertinent part of the Court's constitutional analysis. *Id.* at 2149.

[7] The Court's attention is also invited to the brief of *Amicus Curiae* Association of American Railroads in No. 98-531. Pages 13-16 of that brief discuss the exceedingly limited nature of the potential remedies available from a claim of wrongdoing by a state agency. *See also* the Appendix to that brief setting forth selected statutory provisions from a number of states demonstrating the limited availability of state relief.

The most fundamental flaw in Florida Prepaid's argument is that it is premised upon the proposition that Congress' § 5 power is limited to addressing the constitutional wrongs that are required to maintain § 1983 cases. It is clear from this Court's decisions, however, that pursuant to its § 5 powers, Congress can reach actions by the States which, in themselves, are not unconstitutional, a vital distinction between congressional abrogation of the States' immunity under § 5 and the scope of § 1983.

Florida Prepaid's argument is directly contrary to this Court's decision in *Ex parte Virginia*, 100 U.S. at 345 ("It is the power of Congress which has been enlarged. Congress is authorized to *enforce* the prohibitions by appropriate legislation".). *See also Katzenbach v. Morgan*, 384 U.S. at 648. ("A construction of § 5 that would require a judicial determination that the enforcement of the state law . . . violated the Amendment, as a condition of sustaining the congressional enactment, would depreciate both congressional resourcefulness and congressional responsibility for implementing the Amendment.") (footnote omitted).

Thus, *Parratt v. Taylor*, 451 U.S. 527 (1981), *overruled in part on other grounds by Daniels v. Williams*, 474 U.S. 327 (1984), is inapposite. Additionally, *Parratt* involved an alleged loss of property resulting from "a random and unauthorized act by a state employee." *Id.* at 541. This Court's decision in *Hudson v. Palmer*, 468 U.S. 517 (1984), dealing with an unauthorized deprivation of property, is also inapposite. CSB's claim does not involve either random or unauthorized behavior.

Florida Prepaid also attempts to rely upon *City of Boerne* to support the proposition that a separate federal remedy as provided by TRCA is unconstitutional because of the

contention that "there is no legislative . . . record" to support the adoption of a separate federal remedy. Brief at 21. This Court, however, recognizes that it is for Congress to determine the legislation needed to enforce the guarantees of the Fourteenth Amendment "and its conclusions are entitled to much deference." *City of Boerne*, 521 U.S. at 536. Deference does not depend upon the extent to which Congress has compiled a record to support its decision:

> Judicial deference, in most cases, is based not on the state of the legislative record Congress compiles, but 'on due regard for the decision of the body constitutionally appointed to decide' *Oregon v. Mitchell*, 400 U.S. at 207 (opinion of Harlan, J.). As a general matter, it is for Congress to determine the method by which it will reach a decision.

Id. at 531-32.

IV. FLORIDA PREPAID'S INVITATION TO OVERRULE THE *PARDEN* DOCTRINE SHOULD BE DECLINED.

Florida Prepaid argues that this Court should overrule *Parden v. Terminal Ry. Of Ala. State Docks Dep't*, 377 U.S. 194 (1964). Brief at 23-35. The invitation should be declined. Florida Prepaid argues that "the *Parden* waiver doctrine is based on a premise-- the existence of congressional authority under the Commerce Clause . . . rejected in the *Seminole Tribe*." Brief at 35.

The *Parden* waiver doctrine, however, embodies a basis for finding federal court jurisdiction over the States that was characterized in *Seminole Tribe* as "unremarkable and completely unrelated. . . ." *Id.* 517 U.S. at 65. That alternative basis for jurisdiction is vitally important now that the States, principally through their university arms and entities such as

Florida Prepaid, have become engaged in widespread commerce affecting many fields.

Florida Prepaid has itself given a reason why the *Parden* doctrine is important and should not be repudiated. In arguing against the position of *Amicus Curiae* International Trademark Association that the application of the *Parden* doctrine offers a means of leveling the playing field, Florida Prepaid contends that the Eleventh Amendment is designed precisely to avoid a "level playing field." Brief at 34 n.15. Clearly, however, this Court's decision in *Seminole Tribe*, concerning the overriding authority of the Eleventh Amendment, does not support such a sweeping statement.

There is simply no policy reason for permitting the States to enter into commercial areas, subject to congressional regulation, that are not necessary to carry out their functions as States, in competition with private enterprise, without allowing Congress to hold them to the same standard of conduct applicable to private sector participants.[8]

It is vitally important that this Court not adopt a constitutional interpretation that leaves Congress unable to address lawless behavior by the States in the commercial arena. Just as this Court has not hesitated to find that there are limits to the constitutional authority of both the federal and state governments to regulate, this Court should not hesitate to find

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[8] *Amicus Curiae*, Regents of the University of California, maintains that this Court has rejected the distinction between governmental and nongovernmental functions that is used in applying the *Parden* doctrine relying upon *Garcia v. San Antonio Metro. Transit Auth.*, 469 U.S. 528, 546-47 (1985). Brief at 13-17. In *Garcia*, the Court, overruling *National League of Cities v. Usery*, 426 U.S. 833 (1976), found that the Commerce Clause empowered Congress to impose Fair Labor Standards Act provisions against the States without regard to whether a particular activity was a traditional governmental function. The *Usery* test, however, is not identical to the *Parden* test, and in any event, application of *Parden* permits federal court jurisdiction in a manner that does not intrude upon the States' core functions.

that there are limits to the authority of the States to compete with private enterprise without being subject to the same rules and regulations that govern private enterprise.

Florida Prepaid's argument that its activities are not subject to the *Parden* doctrine because it is performing a core governmental function of promoting education is unpersuasive. Brief at 35-40. The fact is that Florida Prepaid is offering a private investment program, *i.e.*, a means to permit private savings by private individuals to meet private responsibilities. The program does not limit purchases to Florida residents, nor do the funds have to be used at postsecondary schools in Florida. CSB Opening Brief at 35.

Florida Prepaid attempts to buttress its position that it is not merely involved in assisting private savings by noting that it has labeled its products as "advance payment contracts" and that in some circumstances termination of the contracts will result only in the refund of the amount paid into the plan, without interest. Brief at 38. Florida Prepaid overstates the draconian nature of its contract. Among other things, there are circumstances in which interest is paid upon termination, and, the holder of the contract is free to change the designated beneficiary to avoid a forfeiture of the value of the contract. Florida Prepaid Master Covenant, §§ 5.03, 6.01. In any event, the fact that Florida Prepaid may offer an investment vehicle that is a poor bargain does not change the fact that it is nothing more than a private savings program designed to meet private obligations. The quality of the product offered by Florida Prepaid is not the issue; it is the nature of the product.

Florida Prepaid is simply another participant in the predominantly private function of assisting private parties in accumulating sufficient funds to pay for the costs of college--through insurance programs, mutual funds, bank savings, or any other possible approach to the accumulation of funds.

Florida Prepaid's private savings program has no legitimate claim to be deemed a core governmental function.[9]

Finally, Florida Prepaid attempts to escape the *Parden* Doctrine by contending that the TRCA failed to give the notice required by this Court's decision in *Welch v. Texas Dep't of Highways & Pub. Transp.*, 483 U.S. 468 (1987). Brief at 41-44. By Congress' enactment of the TRCA, however, Florida and the States were put on clear notice that, henceforth, those state activities that compete with the private sector would be subject to the Lanham Act. As found by the court of appeals, the TRCA "declares that if a state or its instrumentality chooses to engage in a proprietary activity that potentially falls under the Lanham Act, it can be held liable in federal court for violations of that Act." Pet. App. at 21a. That is all the notice that is required by *Welch*.

Florida Prepaid does not, of course, argue that it was not in fact fully aware that it faced Lanham Act liability after the 1992 enactment of the TRCA. Nevertheless, Florida Prepaid argues that the requisite *Parden* notice would require that the states be informed that immunity would be waived if they engage, as here pertinent, in college savings programs. Brief at 41. Florida Prepaid's arguments go well beyond this Court's prior decisions in *Welch v. Texas Dep't of Highways & Pub. Transp.*, 483 U.S. 468 (1987) and *Employees of the Dep't of Pub. Health & Welfare v. Dep't of Pub. Health & Welfare*, 411 U.S. 279 (1973). Those cases considered statutes of general application, *i.e.*, the Jones Act in *Welch*, and the Fair Labor Standards Act

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[9] Florida Prepaid argues that, by enacting the Small Business Job Protection Act of 1996, Pub. L No. 104-188, 110 Stat. 1755 (1996), extending tax-exempt status to state prepaid tuition programs, Congress has recognized those programs as "an appropriate function of state government." Brief at 39. To the contrary, the Act was necessary only because such plans do not represent core governmental functions. The Internal Revenue Code had long provided a tax exemption for state income derived from the "exercise of any essential government function." I.R.C. § 115 (1986).

in *Employees*. Despite that, the Court did not suggest that the States had not been given the requisite *Parden* notice because of a failure to identify specific state activities that would be covered.

Congress cannot reasonably be expected to identify each specific proprietary activity of the States when invoking the *Parden* doctrine. Instead, if Congress states its intentions with the requisite clarity, it need only notify the States that henceforth they must either comply with the law or cease conducting the proprietary activities.

CONCLUSION

The judgment of the court of appeals should be reversed and the case remanded for further proceedings.

April 12, 1999 Respectfully submitted,

ARNOLD B. CALMANN
SAIBER SCHLESINGER SATZ
& GOLDSTEIN, LLC
One Gateway Center
Newark, New Jersey 07102-5311
(973) 622-3333

DAVID C. TODD
Counsel of Record
DEBORAH M. LODGE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, DC 20037
(202) 457-6000

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No. 98-149

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

COLLEGE SAVINGS BANK,

Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Third Circuit

BRIEF AMICUS CURIAE OF THE INTERNATIONAL TRADEMARK ASSOCIATION IN SUPPORT OF PETITIONER

MARTIN H. REDISH*
NORTHWESTERN UNIVERSITY
SCHOOL OF LAW
357 East Chicago Avenue
Chicago, Illinois 60611
(312) 503-8545

On Behalf of the International Trademark Association as Amicus Curiae

Of Counsel:
JEROME GILSON
BRINKS HOFER GILSON & LIONE
NBC Tower, Suite 3600
455 North Cityfront Plaza Drive
Chicago, Illinois 60611-5599

*Counsel of Record

Midwest Law Printing Co., Chicago 60610, (312) 321-0220

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QUESTIONS PRESENTED

1. Does this Court's decision in *Parden v. Terminal Railway*, 377 U.S. 184 (1964), recognizing the doctrine of constructive waiver of Eleventh Amendment immunity, remain good law in light of the subsequent decisions of this Court?

2. Does the doctrine of constructive waiver reflect appropriate principles of constitutional law, federalism and social policy?

3. Does a State's filing of a counterclaim in a Lanham Act false advertising action brought against it in federal court constitute a waiver of the State's Eleventh Amendment immunity?

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BRIEF AMICUS CURIAE OF THE INTERNATIONAL TRADEMARK ASSOCIATION

This brief is submitted on behalf of the International Trademark Association (INTA) as amicus curiae in the above action, in support of Petitioner. It is submitted with the permission of the parties.

INTA submits its brief in this important Lanham Act case in order respectfully to urge this Court to recognize the continued vitality, both as a matter of doctrine and constitutional policy, of the principle of constructive waiver of a State's immunity from suit under the Eleventh Amendment, recognized initially in *Parden v. Terminal Railway*, 377 U.S. 184 (1964). INTA further respectfully asks this Court to hold that the action of Respondent in choosing to establish a system for the financing of private higher education constitutes the type of non-core voluntary activity on the part of the State that constitutes a waiver of Eleventh Amendment immunity under the circumstances of the present case. Finally, INTA respectfully asks this Court to hold that, by filing a counterclaim and arguing Lanham Act support for it, Respondent has waived its Eleventh Amendment immunity under the principle established in *Clark v. Barnard*, 108 U.S. 436 (1883).[1] The claim should be allowed to proceed, and the Respondent should be held to the same Lanham Act standards as a private, for-profit, business.

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[1] INTA takes no position here on the power of Congress under section 5 of the Fourteenth Amendment to enact the Trademark Remedy Clarification Act of 1992, Pub. L. No. 102-542, 106 Stat. 3567 (1992), an amendment to the Lanham Act, 15 U.S.C. §1051 *et seq.*

INTEREST OF THE AMICUS[2]

INTA is a 120-year-old, not-for-profit, worldwide organization representing over 3,700 corporations, law firms, and professional associations in over 120 countries. INTA's membership, which crosses all industry lines and includes both manufacturers and retailers, recognizes the essential role that trademarks and protection against unfair competition play in promoting effective commerce, protecting the interests of consumers, and encouraging free trade and fair competition. INTA therefore has a special interest in the rigorous enforcement of the protections granted in the Lanham Act. The fifty-two-year-old Act, a strong pronouncement of federal public policy, outlaws a wide variety of commercial wrongs, such as trademark and trade dress infringement, dilution of the distinctiveness of famous marks, counterfeiting, and false or deceptive advertising.

ARGUMENT

THE DOCTRINE OF CONSTRUCTIVE WAIVER OF ELEVENTH AMENDMENT IMMUNITY REMAINS CONTROLLING PRECEDENT IN THIS COURT.

It is well established that a State may waive its immunity to suit under the Eleventh Amendment. See *Clark v. Barnard*, 108 U.S. 436 (1883). See also *Atascadero State Hospital v. Scandon*, 473 U.S. 234, 238

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[2] Pursuant to Rule 37.6, *amicus curiae* states that this brief was not authored, in whole or in part, by counsel to a party and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or its counsel.

(1985) ("if a State waives its immunity and consents to suit in federal court, the Eleventh Amendment does not bar the action"). This principle derives from long recognized historical practice, under which the sovereign has always been able to waive its sovereign immunity against suit. See Erwin Chemerinsky, Federal Jurisdiction 7.6 (2d ed. 1994). The ability of a State to waive its Eleventh Amendment immunity has remained unquestioned, regardless of the scope of that immunity.

While it has always been recognized that a State may directly and expressly waive its Eleventh Amendment immunity, this Court has long recognized that a State may also waive its immunity through its actions, rather than merely through express disavowal. For example, in *Clark v. Barnard*, 108 U.S. 436 (1883), this Court rejected Rhode Island's assertion of Eleventh Amendment immunity, because of the voluntary appearance of the state in intervening as a claimant of the fund in court. *Id.* at 447. This Court held that such an appearance constituted a waiver of immunity, even though at no point had Rhode Island openly waived its immunity. Indeed, Rhode Island had vigorously asserted its sovereign immunity by challenging jurisdiction on Eleventh Amendment grounds. *Id.* at 445. This Court nevertheless held that by its own voluntary action of asserting a claim to the fund in question, the State had implicitly but unambiguously waived its immunity against suit.

In *Parden v. Terminal Railway*, 377 U.S. 184 (1964), this Court recognized that a State may implicitly waive its Eleventh Amendment immunity through voluntary actions beyond the narrow context of litigation participation. There this Court held that "Alabama, when it began operation of an interstate railroad approximately

20 years after enactment of the [Federal Employers Liability Act], necessarily consented to such suit as was authorized by that Act." *Id.* at 192. By enacting the FELA, this Court reasoned, "Congress conditioned the right to operate a railroad in interstate commerce upon amenability to suit in federal court as provided by the Act; by thereafter operating a railroad in interstate commerce, Alabama must be taken to have accepted that condition and thus to have consented to suit." *Id.*

In recognizing the validity of constructive waiver, this Court was careful to emphasize that such recognition in no way undermined the fundamental principle of Eleventh Amendment immunity: It remains the law that a State may not be sued by an individual without its consent. *Id.* However, "[t]hat Congress could not make a State suable upon all causes of action does not mean that it cannot do so with respect to this particular cause of action, where imposition of such liability is within its power to regulate commerce and where the State, by operating a railroad in interstate commerce, has voluntarily submitted itself to that power." *Id.* at 193, n.11.

Since *Parden*, this Court has expressly overruled that portion of the decision holding that in the Federal Employers Liability Act Congress had evinced the requisite intent to subject the States to suit. *Welch v. Texas Department of Highways and Public Transportation*, 483 U.S. 468, 475-76 (1987). After *Welch*, Congress must express its intent to condition State activity on the waiver of immunity by means of a clear statement. As the court below held, the statute challenged in this case, the Trademark Remedy Clarification Act of 1992 amendment to the Lanham Act, surely manifests that

intent. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 131 F.3d 353, 357 (3d Cir. 1997). It specifically provides that "any State, and any such [State] instrumentality, shall be subject to the provisions of this [Lanham] Act in the same manner and to the same extent as any nongovernmental entity." 15 U.S.C. §1127. And at no point has this Court ever overruled the portion of *Parden* recognizing congressional power to condition a State's decision to participate in certain activities on the waiver of State immunity.

In decisions completely unrelated to the *Parden* waiver issue, this Court has wavered over the extent of Congress's power directly to abrogate State immunity pursuant to its authority under Article I, section 8 of the Constitution. A plurality of this Court expressed the view in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), that Congress possessed power to abrogate State immunity pursuant to the Commerce Clause, Art. I, sec. 8, cl. 3. However, in *Seminole Tribe of Florida v. Florida,* 517 U.S. 44 (1996), this Court concluded that "the plurality's reasoning in *Union Gas* deviated sharply from our established federalism jurisprudence. . . ." *Id.* at 63. This Court therefore held that, other than through its power under section 5 of the Fourteenth Amendment, Congress lacked constitutional authority directly to abrogate State immunity. It is important to note, however, that at no point did the Court in *Seminole Tribe* provide any indication that the principle of constructive waiver recognized in *Parden* was no longer good law. The issue was simply not before the Court in the *Seminole Tribe* case.

Nor is there any reason to believe that the constructive waiver doctrine of *Parden* is somehow inherently inconsistent with either the reasoning or holding of this Court in *Seminole Tribe*. One may reach this conclusion, simply by noting the indisputable fact that regardless of the scope of Eleventh Amendment State immunity, a State still retains authority to waive that immunity. This is as true after *Seminole Tribe* as it was before that decision. Thus, the fact that this Court in *Seminole Tribe* extended the scope of sovereign immunity beyond what it arguably was after *Union Gas* is wholly irrelevant to the question of the scope of a State's power to waive that immunity.

That the scope of a State's power to waive constitutional protection against federal incursion is completely divorced from the substantive scope of that protection is conclusively proven by this Court's decisions construing both the Tenth Amendment protection of State's rights and the ability of States to waive that protection. In recent years, this Court has significantly extended the scope of the Tenth Amendments protection of State's rights. Compare *Printz v. United States*, 521 U.S. 98 (1997); *United States v. Lopez*, 514 U.S. 549 (1995), with *Garcia v. San Antonio Metropolitan Transit Authority*, 469 U.S. 528 (1985). However, this Court has continued to recognize that Congress may condition the receipt of federal benefits by the States on the States' willingness to comply with related federal directives, even when—because of the Tenth Amendment—Congress lacked power to impose such directives on the States directly. See *South Dakota v. Dole*, 483 U.S. 203, 206 (1987) (Congress may attach conditions on the receipt of federal funds, and has repeatedly employed the

power to further broad policy objectives by conditioning receipt of federal moneys upon compliance by the recipient with federal statutory and administrative directives. *Fullilove v. Klutznick*, 448 U.S. 448, 474 (1980)).[3] Recognition of such waiver in no way violates the Tenth Amendment, this Court has reasoned, because "the State could . . . adopt the simple expedient of not yielding to what she urges is federal coercion. The offer of benefits to a state by the United States dependent upon cooperation by the state with federal plans, assumedly for the general welfare, is not unusual." *South Dakota v. Dole*, 483 U.S. at 210, quoting *Oklahoma v. Civil Service Commission*, 330 U.S. 127, 143-44 (1947). See also *Steward Machine Co. v. Davis*, 301 U.S. 548, 595 (1937) ("There is only a condition which the state is free at pleasure to disregard or to fulfill.").

Thus, nothing in *Seminole Tribe*'s extension of State immunity under the Eleventh Amendment necessarily implies alteration of the scope of controlling waiver doctrine. As long as the State is free to accept or reject the condition set down by the federal government, conditional waiver of Eleventh Amendment immunity is no less acceptable, as a matter of either logic or constitutional theory, than conditional waiver of Tenth

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[3] Although in *Dole* Congress was acting pursuant to its spending power under Article I, section 8, clause 1 of the Constitution, the particular Article I power being exercised by Congress does not alter the irrefutable fact that Congress lacked constitutional power directly to impose its directive on unwilling States. Thus, the result of *Dole* is that Congress may condition the receipt of benefits on the States' acceptance of conditions that Congress would lack the constitutional power to impose in the form of direct regulation.

Amendment protection. It should not be surprising, then, that a number of lower courts have recognized the continuing vitality of the *Parden* constructive waiver doctrine, even after *Seminole Tribe*. See, e.g., *Premo v. Martin*, 119 F.3d 764, 770-71 (9th Cir. 1997), cert. denied, 118 S.Ct. 1163 (1998) (implied waiver by state participation in cooperative federal-state program where participation expressly conditioned upon submitting to federal judicial review of grievance arbitration); *U.S. West Communications, Inc. v. TCG Seattle*, 971 F. Supp. 1365, 1369-70 (W.D. Wash. 1997) (same).[4]

Indeed, the decision in *Seminole Tribe* actually has the effect of *revitalizing Parden*'s constructive waiver doctrine. Under the Eleventh Amendment interpretation adopted in *Union Gas*, it should be recalled, Congress may unilaterally revoke State immunity pursuant to its powers under Article I, section 8. Pursuant to this view of congressional power, the doctrine of constructive waiver is effectively rendered moot: When Congress may unilaterally revoke State immunity, there will exist no need for Congress to induce voluntary State compliance with its directives. It is, then, only after this Court significantly restricted congressional power unilaterally to revoke immunity that the doctrine of

[4] Other courts, while refusing to find that Congress had explicitly intended to impose conditional waiver on the States, nevertheless proceeded on the assumption that constructive waiver remains valid in the abstract. See, e.g., *Booth v. Maryland*, 112 F.3d 139, 145 (4th Cir. 1997), cert. denied, 118 S. Ct. 2063 (1998); *Mills v. Maine*, 118 F.3d 37, 45 (1st Cir. 1997).

constructive waiver can play a significant role in Eleventh Amendment interpretation.[5]

Thus, nothing in this Court's decisions since *Parden* in any way undermines that decision's recognition of Congress's power, through the expression of a clear statement of its intent, to condition a voluntary State activity on the waiver of the State's Eleventh Amendment immunity. Therefore the doctrine of constructive waiver retains full protection of the doctrine of *stare decisis*, a doctrine of "central importance . . . in this Court's jurisprudence." *Hilton v. South Carolina Public Railways Commission*, 502 U.S. 197, 201 (1991). Adherence to precedent, this Court has wisely concluded, promotes stability, predictability, and respect for judicial authority. *Id.* at 202. See also *Vasquez v. Hillery*, 474 U.S. 254, 265-66 (1986). Hence, this Court will not depart from the doctrine of *stare decisis* without some compelling justification. *Hilton v. South Carolina Public Railways Commission*, 502 U.S. at 202. See also *Arizona v. Rumsey*, 467 U.S. 203, 212 (1984).

No such compelling justification exists to support abandonment of the doctrine of constructive waiver. Indeed, as the following section will demonstrate, constructive waiver represents appropriate precepts of constitutional federalism and social policy. Thus, *stare decisis* dictates continued adherence to the constructive waiver doctrine.

[5] That the extension of Eleventh Amendment immunity in *Seminole Tribe* in no way alters the scope of the constructive waiver doctrine is underscored by the fact that the conclusion of *Seminole Tribe* is no different from the governing state of Eleventh Amendment interpretation in 1964, when *Parden* was decided.

THE DOCTRINE OF CONSTRUCTIVE WAIVER REFLECTS VALID PRINCIPLES OF CONSTITUTIONAL FEDERALISM AND SOCIAL POLICY, AND HERE WILL LEVEL THE PLAYING FIELD FOR STATES AND THEIR PRIVATE SECTOR COMPETITORS.

This Court should adhere to the controlling doctrine of constructive waiver, not only because of considerations of *stare decisis* but also because the doctrine reflects valid principles of federalism, fairness, and social policy. For much the same reasons that this Court has continued to recognize the validity of the doctrine of constructive waiver in the context of Tenth Amendment limitations on congressional power, it should recognize the continuing validity of constructive waiver in the interpretation of the Eleventh Amendment.

Both the Tenth and Eleventh Amendments place clearly defined limitations on congressional power unilaterally to burden State power. However, in both contexts the doctrine of constructive waiver recognizes the ability of the federal government to seek to induce voluntary State compliance with federally determined social policy, such as that reflected in the Lanham Act, in situations in which the federal government lacks power directly to demand State compliance.

Such tacit systemic bargaining must be distinguished from the governmental imposition of so-called unconstitutional conditions on private individuals. When government conditions an individual's receipt of benefits on the individual's waiver of constitutional rights, it violates the social contract by circumventing the countermajoritarian protections that have been adopted both to avoid tyranny and to assure the continued operation of the constitutional democratic system. Moreover, to suggest that an individual's waiver in such contexts could be truly voluntary ignores the enormous disparity of bargaining power that pervades most interactions between government and private individuals. In contrast, the States function as powerful and integral units within the structure of the nation's political system.

This does not mean, of course, that the States are somehow deprived of the express constitutional protections given them in the Tenth and Eleventh Amendments against federal overreaching. It does mean, however, that States should be deemed capable of deciding whether or not to waive those constitutional protections in exchange for either a federally dispensed benefit or the ability to enter the realm of private competition in areas already subject both to federal regulation and federal protection. In this manner, the federal government is able to effectuate and protect fundamental notions of federal social policy by extending them to State actors, without unconstitutionally encroaching on State power or coercively burdening the States' performance of its governing function.

Congress's decision in the Trademark Remedy Clarification Act of 1992 to extend the Lanham Act's protections and restrictions to relevant State activity effectively illustrates the beneficial impact of this form of intersystemic compromise. As the court below stated, "[o]ne of the main purposes of section 43 of the Lanham Act is to protect persons engaged in interstate commerce against unfair competition caused by false or misleading representations or advertising about goods, services or commercial activities." 131 F.3d at 357. And there is little question that States regularly engage in activities that can generate acts of unfair competition.

For example, States aggressively market and promote lotteries and other forms of gambling, athletics, liquor sales, tourism, and many other forms of commercial, income-producing activities. The greater the financial reward, the more there exists a climate for States to infringe trademarks and to engage in false advertising, to the detriment and injury of private parties. If Congress were unable to subject them to suit for such activity prohibited by the Lanham Act, our system would be left with the anomalous and unfair result that States that choose to engage in activity subject to Lanham Act regulation, unlike their private competitors, would be insulated from federal judicial action to check their illegal activity. Surely, Congress should not be required to tolerate such indefensible inequality, unfairness and disruption of federal uniformity and federally defined social policy.

When a State chooses to enter an area that is traditionally the province of private competition, subject to federal regulation and protection, Congress must be permitted to condition a State's entrance on the State's willingness to obey the same rules that its private competitors must follow. Properly employed, the doctrine of constructive waiver of Eleventh Amendment immunity does no more nor less than provide a level playing field for States and their private competitors. What could be more fair?

In what can only be described as supreme irony, States have access to the federal courts to protect their Lanham Act rights against private industry, and do not hesitate to take advantage of it, while private sector Lanham Act claimants have no corresponding rights against the States. See, e.g., *Univ. of Georgia Athletic*

Ass'n v. Laite, 756 F.2d 1535 (11th Cir. 1985) (affirming judgment in favor of State University's Lanham Act claims). Indeed, the State of Florida itself has initiated Lanham Act suits. See, e.g., *Univ. of Florida v. KPB, Inc.*, 89 F.3d 773 (11th Cir. 1996) (denying University of Florida's unfair competition claim under Section 43(a) of the Lanham Act); *State of Florida v. Real Juices, Inc.*, 330 F.Supp. 428 (M.D. Fla. 1971) (granting preliminary injunction to State of Florida on claims under Section 43(a) of the Lanham Act). There is, then, something fundamentally wrong with a legal system which protects the States at the same time it immunizes them from suits brought to redress their Lanham Act violations against private sector competitors.

The doctrine of constructive waiver rectifies this situation, without allowing Congress coercively to burden State power in an unconstitutional manner. If the State finds the federally imposed restrictions unacceptable, it always retains the option simply not to reach beyond the scope of its traditional governmental authority. As already noted, this Court has long recognized the validity of such a practice in the context of States' Tenth Amendment rights. There exists absolutely no reason to treat the context of Eleventh Amendment immunity in a different manner.

THE STATE'S DECISION TO PROVIDE A FINANCING SCHEME FOR HIGHER EDUCATION RENDERS THE STATE SUBJECT TO SUIT UNDER THE CONSTRUCTIVE WAIVER DOCTRINE.

A necessary element of the constructive waiver doctrine is the State's ability to reject the federal inducement to waive its Eleventh Amendment immunity. If

the State has no real option to decline to engage in the activity in question, then no inference of consent may properly be drawn from the State's entrance into the activity. At the same time, to construe the scope of voluntary State behavior in an unduly narrow manner would effectively destroy the beneficial results that can flow from congressional use of constructive waiver.

In the Tenth Amendment context, this Court has been careful to discern the difference between State coercion and State choice. For example, in *South Dakota v. Dole*, 483 U.S. 203 (1987), this Court found that when Congress conditioned receipt of 5% of available highway funds on the State's agreement to raise its drinking age to 21, "the argument as to coercion is shown to be more rhetoric than fact." *Id.* at 211. As this Court had said earlier in a similar context, "to hold that motive or temptation is equivalent to coercion is to plunge the law in endless difficulties. . . . Till now the law has been guided by a robust common sense which assumes the freedom of the will as a working hypothesis in the solution of its problems." *Steward Machine Co. v. Davis*, 301 U.S. 548, 589-90 (1937).

In applying constructive waiver to the Eleventh Amendment, the question of State voluntariness has to this point been resolved by examining whether the activity in question amounts to a core governmental function. For if the activity can be so characterized, then the State can have no real option to decline to engage in that activity.

Applying this reasoning, this Court in *Employees of Department of Public Health & Welfare v. Department of Public Health & Welfare*, 411 U.S. 279 (1973), de-

clined to find constructive waiver to Missouri's continued operation of non-profit hospitals and other facilities as to suits by employees under the Fair Labor Standards Act. This Court did so, in part because to infer consent from a State's performance of such traditionally governmental operations would necessarily extend to suits by all state employees. *Id.* at 284-85. See *Abril v. Virginia*, 145 F.3d 182, 190 (4th Cir. 1998), where the court suggested that "[t]he obvious rationale [for the Court's refusal to apply waiver in *Employees*] was that such a wide-ranging waiver could not fairly be implied from no more than a state's continued employment of people to conduct traditional governmental operations, there being no real choice in the matter."

In *Employees*, this Court distinguished *Parden*, in part, on the grounds that the State activity in that case had involved an enterprise operated for profit in an area where private persons and corporations normally ran the enterprise. 411 U.S. at 284. Thus, where the State does nothing more than continue traditional non-commercial governmental operations, no waiver may be implied. *Abril v. Virginia*, 145 F.3d at 190. See also *Digiore v. Illinois*, 962 F.Supp. 1064, 1075-76 (N.D. Ill. 1997) ("[a] state can hardly manifest consent to suit by . . . hiring and paying its employees, activities that the state has but little choice to engage in.").

The commercial activity undertaken by the State of Florida in the present case is a far cry from the fundamental governmental functions performed, not for profit, by the State of Missouri in *Employees*. In the words of the court below, "[t]he State of Florida created . . . Florida Prepaid to *market and sell* tuition prepayment programs designed to provide sufficient funds to

cover future college expenses." 131 F.3d at 355 (emphasis added). This is effectively identical to the private, commercial activity in which Petitioner and other private entities engage. See *id.* (CSB sells "CD's which are deposit contracts designed to provide sufficient funds to cover future costs of college education."). Thus, the State's activity in question is one not traditionally performed by the State and in fact has been traditionally performed by private commercial enterprises. The State's activity is therefore analogous to the decision by the State of Alabama to operate a profit-making railroad in *Parden*, not the traditional, core governmental functions performed by the State of Missouri involved in *Employees*.

The court below found the State's activity to fall within the concept of core governmental functions, because making available education opportunities is a function traditionally performed by government. 131 F.3d at 363-64. If the issue involved the operation of public schools at the elementary, secondary or higher education levels, this conclusion would be accurate. However, to characterize the State's activity in this case as an element of the government's traditional educational function defines the relevant category of activity much too broadly. In the present case, the State is aiding education in the exact same sense in which any private enterprise that finances private education for profit aids education. The *effect* of the activity may be to assist the educational process, but the *activity itself* is nothing more than the performance of a traditionally private, commercial activity. If this State activity is characterized as a core function, it would be difficult to imagine an activity that would not be so characterized,

for no reason other than the circular one that the State had chosen to engage in it.

To be sure, the State may appropriately discern an important public interest to be served by the activity in question. Presumably, the State of Alabama believed that an important public interest was being served by its operation of its own railroad. Indeed, a state presumably does not act unless it deems its actions to be in the public interest. Hence such a definition of core governmental function would be so broad as effectively to destroy the constructive waiver doctrine.

Under the premises of a capitalistic system, even private profit-making activity will often have the effect of serving the public interest. Thus, the fact that the State has chosen to engage in an activity in order to further the public interest cannot, in and of itself, render the activity a core governmental function.

BY FILING A COUNTERCLAIM IN THE PRESENT ACTION, THE STATE WAIVED ITS ELEVENTH AMENDMENT IMMUNITY.

The court below refused to find that by filing a counterclaim in the present case,[6] the State of Florida had

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[6] Respondent's counterclaim was not specifically based on the Lanham Act. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 919 F.Supp. 756, 763 (D. N.J. 1996). However, it argued, unsuccessfully, that a 1988 Lanham Act amendment supported its common law claims because the amendment supported Petitioner's claim and "it would be unfair to deny it the same legal right." *Id.* at 765. It would be equally unfair to allow the State of Florida to bring Lanham Act cases in federal court against private litigants but deny private litigants like Petitioner the same legal right to bring Lanham Act cases against the State of Florida.

waived its Eleventh Amendment immunity. It reached this conclusion, because as a jurisdictional issue, the defense of sovereign immunity may be raised at any time during the pending case. 131 F.3d at 365. In so holding, however, the court below ignored unambiguous and controlling precedent of this Court, and in any event confused the waiver of sovereign immunity with the waiver of the *defense* of sovereign immunity.

The conclusion of the court below runs directly contrary to the decision of this Court in *Clark v. Barnard*, 108 U.S. 436 (1883). There this Court found that the State of Rhode Island had waived its sovereign immunity by entering a claim to the fund in question. The Court reached this conclusion, even though from the outset of the case the State had objected to the assertion of jurisdiction against it on grounds of sovereign immunity. 108 U.S. at 447-48. In the present case, the State's filing of a counterclaim is fundamentally identical to Rhode Island's filing of a claim against the fund—the very activity that this Court in *Clark* found to constitute a waiver of the State's sovereign immunity.

The court below was correct in asserting that an objection to subject matter jurisdiction is never waivable. See Fed. R. Civ. P. 12(h)(3). However, the issue here is not whether a party to a litigation had waived its defense to jurisdiction by failing to raise that defense in a timely manner. The issue, rather, is whether, by filing its counterclaim, the State has created a situation in which it no longer possesses an objection to jurisdiction in the first place. The defense of sovereign immunity applies only to suit against a *non-consenting* State. If, by filing its counterclaim, the State is held to have implicitly consented to suit (as this Court held in

Clark), then once the counterclaim is filed the suit no longer violates sovereign immunity. Under these circumstances, then, once the counterclaim is filed there no longer exists an objection to jurisdiction to be waived. Because the court below fundamentally confused these two very different situations, it was forced to reach a conclusion that directly contradicts this Court's holding in *Clark v. Barnard*.

CONCLUSION

For the above-stated reasons, the Amicus respectfully asks this Court to reverse the decision of the court below, and hold that the State of Florida is properly subject to suit in federal court under Section 43(a) of the Lanham Act.

Respectfully submitted,

MARTIN H. REDISH*
NORTHWESTERN UNIVERSITY
SCHOOL OF LAW
357 East Chicago Avenue
Chicago, Illinois 60611
(312) 503-8545

On Behalf of the International Trademark Association as Amicus Curiae

Of Counsel:
JEROME GILSON
BRINKS HOFER GILSON & LIONE
NBC Tower, Suite 3600
455 North Cityfront Plaza Drive
Chicago, Illinois 60611-5599

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*Counsel of Record

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IN THE
SUPREME COURT OF THE UNITED STATES
October Term, 1998

COLLEGE SAVINGS BANK,

Petitioner,

v.

FLORIDA PREPAID POST SECONDARY EDUCATION EXPENSE BOARD,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF OF THE REGENTS OF THE UNIVERSITY OF CALIFORNIA AS *AMICUS CURIAE* IN SUPPORT OF THE RESPONDENT

JAMES E. HOLST
JOHN F. LUNDBERG
P. MARTIN SIMPSON, JR.
OFFICE OF THE GENERAL COUNSEL
UNIVERSITY OF CALIFORNIA
1111 Franklin Street
Oakland, California 94607
(510) 987-9800

RICHARD L. STANLEY
ARNOLD, WHITE & DURKEE
750 Bering Drive, Suite 400
Houston, Texas 77057

March 24, 1999

CHARLES A. MILLER
Counsel of Record
CAROLINE M. BROWN
COVINGTON & BURLING
1201 Pennsylvania Ave., N.W
Washington, D.C. 20044
(202)662-6000

GERALD P. DODSON
MORRISON & FOERSTER
755 Page Mill Road
Palo Alto, CA 94304-1018
(650)813-5600

Attorneys for Amicus Curiae The Regents of the University of California

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EDUCATION EXPENSE BOARD,

Respondent.

On Writ of Certiorari
To the United States Court of Appeals
for the Third Circuit

BRIEF OF THE REGENTS OF THE UNIVERSITY OF CALIFORNIA AS *AMICUS CURIAE* IN SUPPORT OF THE RESPONDENT

The Regents of the University of California ("the University") respectfully submits this brief *amicus curiae* in support of respondent in this case. Petitioner and respondent have consented to the filing of this brief.[1]

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[1] Correspondence reflecting the parties' consent has been lodged with the Clerk. Pursuant to Rule 37.6, the University states that no counsel for any petitioner or respondent authored this brief in whole or in part. Nor did any person or entity, other than the

INTEREST OF *AMICUS CURIAE*

The University is an arm of the State of California and as such is entitled to assert an Eleventh Amendment immunity in private party suits against it in federal court. *See Thompson v. City of Los Angeles*, 885 F.2d 1439 (9th Cir. 1980); *BV Engineering v. Univ. of Cal., Los Angeles*, 858 F.2d 1394, 1395 (9th Cir. 1988), *cert. denied*, 489 U.S. 1090 (1989); *see also Regents of the Univ. of Cal. v. Doe*, 519 U.S. 425 (1997).[2]

The University has a substantial interest in the issue presented in this case as to whether the respondent, a state agency, waived its Eleventh Amendment immunity under the constructive consent doctrine set forth in *Parden v. Terminal Ry.*, 377 U.S. 184 (1964). Under that doctrine, as qualified by subsequent decisions, a state entity can be deemed to have waived its Eleventh Amendment immunity merely by engaging in activities that are the subject of federal authority under the Constitution, if an Act of Congress has clearly specified this consequence of state activity. Petitioner and the United States have urged the Court to reaffirm this doctrine and to apply it to subject respondent to suit in federal court by reason of its having maintained a tuition-prepayment program to foster educational opportunities at state colleges and universities.

University, make a monetary contribution to the preparation or submission of this brief.

[2] The legal status of the University within the structure of the State of California government is more specifically explained in the brief *amicus curiae* in support of the petition for a writ of certiorari submitted in the companion case of *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank and United States of America*, No. 98-531.

The University of California's mission is to "provide undergraduate and graduate instruction in the liberal arts and sciences and the professions." Cal. Educ. Code § 66010.4(c) (1988). It carries out this mission through eight general campuses and a ninth devoted to the health sciences. Its functions embrace many activities that are the subject of federal legislation, and a number of the relevant federal statutes contain provisions that could, under an implied waiver theory, subject state entities to suit in federal court. The resolution of the constructive waiver issue presented in this case will therefore have a major impact on the amenability of the University to suit in federal court in respect of a broad range of its activities.[3]

Further, the University is a party to a suit, *Regents of the University of California v. Genentech, Inc.*, No. 98-731, *petition for writ of certiorari pending*, which presents a related question of whether, by securing a patent and acting to enforce it, the University has waived its immunity from suit in federal court for a declaratory judgment as to the validity and applicability of its patent. Disposition of the constructive waiver issue in this case will likely have a significant impact on the waiver issue presented in the University's pending case.

The University believes that the constructive waiver doctrine, as set forth in the *Parden* case and as advocated in the briefs of petitioner and the United States in this case,

[3] The University also has a substantial interest in the first question presented for review—whether Congress has the power under Section 5 of the Fourteenth Amendment to abrogate the immunity of state entities from suit to redress alleged unfair competition under the Lanham Act. The University has addressed the question of Congress' authority to abrogate under Section 5 of the Fourteenth Amendment in a brief *amicus curiae* submitted in the companion to this case, *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank and United States*, No. 98-531.

represents an unwarranted judicial expansion of the authority to subject state entities to federal court jurisdiction that if sustained would seriously erode the structure of the federal system and the sovereign position of States in that structure. It offers this *amicus* brief to assist the Court in determining whether *Parden's* theory of constructive waiver has any place in this Court's Eleventh Amendment jurisprudence.

SUMMARY OF ARGUMENT

The theory of implied waiver adopted by the Court in *Parden v. Terminal Railway*, 377 U.S. 184 (1964), represents an aberration in Eleventh Amendment jurisprudence that cannot be reconciled with the federal structure embodied in the Constitution. The Court has traditionally recognized that, consistent with the federal framework, there are three ways in which a State's Eleventh Amendment immunity can be overcome: (1) where a State expressly waives its immunity from suit in federal court; (2) where a State affirmatively invokes the jurisdiction of the federal courts; and (3) where Congress has validly abrogated the State's immunity pursuant to its authority under the Fourteenth Amendment or other Amendments that expressly alter the federal structure. Each of these exceptions to immunity has been carefully described and cabined in keeping with the federalism principles reflected in the Eleventh Amendment and elsewhere in the Constitution.

The theory that a State's immunity from suit in federal court can be impliedly waived through state activities, by contrast, is practically boundless, and if fully embraced, would all but obliterate the three limited exceptions to Eleventh Amendment immunity that the Court has endeavored to describe. *See, e.g., Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996). Petitioner and the United States both attempt to make the constructive waiver doctrine

more palatable by limiting it to a subset of state activities, and to that effect advance distinctions between "traditional" state functions (which would not be subject to implied waiver) and those that are "voluntary" (which would be). This Court's prior experience with these sorts of distinctions demonstrates why they must be rejected. The Court has twice attempted to apply such distinctions, outside of the Eleventh Amendment context, and both times ultimately concluded that the effort was "unsound in principle and unworkable in practice" on the ground that any distinction that purports to categorize state governmental functions and accord them different treatment under the Constitution is not "faithful to the role of federalism in a democratic society." *Garcia v. San Antonio Metro. Transit Authority*, 469 U.S. 528, 546-47 (1985). The same conclusion is inescapable here, because all state activity represents choices made by government bodies to advance public ends.

Likewise, the argument that a State must be deemed to have waived its immunity when it engages in "voluntary" activities because it is then competing with private companies fails to appreciate the decisive differences between States and private market participants. Even when they are acting in the commercial marketplace, States have different motivations, different constituencies, and different obligations than their private counterparts. They do not enter the marketplace as competitors seeking an advantage but as sovereigns serving the public interest, and the Eleventh Amendment appropriately treats them as such.

ARGUMENT

I. THE DOCTRINE OF CONSTRUCTIVE WAIVER IS NOT IN KEEPING WITH THE FEDERAL STRUCTURE EMBODIED IN THE CONSTITUTION.

This case presents the fundamental question of whether Congress has the authority to provide that specified state conduct—*i.e.*, engaging in activities that are within the ambit of federal legislation—will subject a State to a suit in federal court that would, but for the congressional enactment, be barred by the Eleventh Amendment. Thirty-five years ago, the Court found the existence of such congressional authority in *Parden v. Terminal Railway*, 377 U.S. 184 (1964). Since that time, the *Parden* doctrine has rarely been followed and has been significantly pared back. After this Court's recent clarification that Congress's authority to abrogate a State's immunity is limited, in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), the federal courts have expressed doubt as to the continued vitality of the *Parden* principle but have been hesitant to declare it implicitly overruled without further instruction from this Court.[4]

The University urges the Court to take this opportunity to inter the aberrant doctrine of constructive waiver of state Eleventh Amendment immunity, as exemplified by the

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[4] *See Abril v. Commonwealth*, 145 F.3d 182 (4th Cir. 1998) (whether *Parden* doctrine of implied waiver survives *Seminole Tribe* is "a matter not wholly free of doubt"); *Close v. New York*, 125 F.3d 31, 40 (2d Cir. 1997) ("[I]f we were to recognize constructive consent every time a State acted in a field regulated by Congress, we would vitiate the very premise upon which *Seminole* was decided."); *cf. Chavez v. Arte Publico Press*, 157 F.3d 282, 287 (5th Cir. 1998) (holding that a "fair reading" of *Seminole* "inescapably suggests" that *Parden* has been overruled), *rehearing en banc granted*, (5th Cir. Oct. 1, 1998).

Parden line of cases, and to reaffirm that it has "no place" in Eleventh Amendment jurisprudence. *See Edelman v. Jordan*, 415 U.S. 651, 673 (1974).

A. States May Be Sued in Federal Court Only When They Expressly Agree to Submit to Federal Court Jurisdiction, or Where Congress Validly Acts to Abrogate Their Immunity.

The Eleventh Amendment, adopted to overturn this Court's early decision in *Chisholm v. Georgia*, 2 U.S. (2 Dall.) 419 (1793), was intended to reaffirm important foundation principles of the Constitution—*i.e.*, that the federal government was to co-exist with the several States, and that each was vested with attributes of sovereignty, one of which is that it is not within the power of citizens to sue the sovereign absent its consent. *See generally Seminole Tribe*, 517 U.S. at 58-68. This principle has been modified as a result of intervening amendments to the Constitution, primarily the so-called Civil War amendments, which represent a partial surrender of state sovereignty in order to enhance the "more perfect union" of the several States. One aspect of that surrender was to enable the national government, acting through the Congress, to subject States to federal court suit. *Id.* at 65-66.

Within this framework, this Court has traditionally recognized three ways in which the prohibition on citizen suits against States in federal courts can be overcome.

1. The first way is by express waiver of sovereign immunity. But because of its significance, the Court requires that the act of waiver be "unequivocal." *See Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 238 n.1 (1985). General waiver-of-sovereign-immunity legislation will not suffice; the legislation must specifically provide for waiver of immunity from suit in federal court. *See, e.g., id.* at 241; *Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 99

n.9 (1984); *Florida Dep't of Health and Rehabilitative Servs. v. Florida Nursing Home Ass'n*, 450 U.S. 147, 150 (1981); *Great Northern Life Ins. Co. v. Read*, 322 U.S. 47, 54-55 (1944).

Moreover, it must be clear from state law that the State has acted officially to waive its immunity. In the absence of legislation, an express waiver by a state official will be honored only where it is clear from the "general policy of the state as expressed in its Constitution, statutes and decisions" that the authority to waive has been conferred on the person seeking to exercise it. *Ford Motor Co. v. Department of Treasury*, 323 U.S. 459, 467 (1945). Consonant with the teaching of the *Ford Motor Co.* case, the courts of appeals have consistently required a clear expression in state law of authority of particular state officials to waive the State's immunity from suit in federal court.[5]

2. A second basis for federal court exercise of jurisdiction over a State is when the State affirmatively invokes the court's jurisdiction. *See, e.g., Clark v. Barnard*, 108 U.S. 436 (1883); *Gunter v. Atlantic Coast Line R. Co.*, 200 U.S. 273, 284 (1906) ("[W]here a state voluntarily becomes a party to a cause, and submits its rights for judicial determination, . . . [the State] cannot escape the result of its own voluntary act by invoking the prohibitions of the Eleventh Amendment."); *see also Missouri v. Fiske*, 290 U.S. 18, 20, 28 (1933).

But even in these cases, the authority of the federal court to adjudicate issues affecting a State is limited to those arising out of the matter as to which the State has invoked

[5] *See, e.g., In re Creative Goldsmiths*, 119 F. 3d 1140 (4th Cir. 1997), *cert. denied sub. nom. Schlossberg v. Maryland Comptroller of the Treasury*, 118 S. Ct. 1517 (1998); *Freimanis v. Sea-Land Service, Inc.*, 654 F.2d 1155 (5th Cir. 1981); *Estate of Porter v. Illinois*, 36 F.3d 684 (7th Cir. 1994); *Silver v. Baggiano*, 804 F.2d 1211, 1214-15 (11th Cir. 1986).

the court's jurisdiction. *See WJM, Inc. v. Massachusetts Dep't of Pub. Welfare*, 840 F.2d 996 (1st Cir. 1988). In effect, the federal court's authority is limited to adjudicating compulsory counterclaims in the nature of recoupment. *See United States v. Mottolo*, 605 F. Supp. 898, 910-911 (D.N.H. 1985); *New York v. City of Johnstown*, 701 F. Supp. 33, 37 (E.D.N.Y. 1988); *United States v. Montrose Chem. Corp. of Cal.*, 788 F. Supp. 1485, 1492-93 (C.D. Cal. 1992).

3. A third basis for a citizen suit in federal court against a State derives from the authority of Congress under the Thirteenth and Fourteenth Amendments to enact legislation to enforce the prohibitions against state action contained in those amendments. Similar authority is contained in the Fifteenth, Nineteenth, Twenty Fourth and Twenty Sixth Amendments, all of which proscribe state actions that would impact on citizens' right to vote. These amendments represent modifications to the system established by the original Constitution, for they limit the sovereign powers of States insofar as those powers might otherwise be exercised in a manner inconsistent with the national policies established in the amendments. The limitation on state sovereignty includes the authority of Congress to subject States to federal court jurisdiction. *See Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976).

Here again the Court's decisions confine the operation of this power. To begin with, the congressional intention to abrogate state immunity must be unmistakably clear. *See Seminole Tribe*, 517 U.S. at 55-56; *Blatchford v. Native Village of Noatak*, 501 U.S. 775 (1991). Mere indications of such intent in legislative history or otherwise fall well short of the required clarity. *Dellmuth v. Muth*, 491 U.S. 223 (1989).

Moreover, the exercise of enforcement power must represent a legitimate effort to protect against the constitutional deprivation that the particular amendment is

meant to proscribe. In the Fourteenth Amendment context, this Court's decision in *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997), establishes parameters for the exercise of congressional power to enforce the prohibition on state action denying persons the equal protection of the law or depriving them of life, liberty or property without due process of law.[6] The Court's opinion emphasizes that the power is confined to protecting existing constitutional rights and does not extend to the creation of new rights or the expansion of existing ones. The standards of congruence and proportionality applied in that case prevent the Section 5 enforcement power from becoming a roving commission to exercise authority not conferred on the Congress by Article I of the Constitution and not ceded by the States when they ratified the Civil War Amendments. *City of Boerne*, 117 S. Ct. at 2174.[7]

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[6] This *amicus* brief does not cover the other question presented in this case—whether the abrogation provision in the Lanham Act can meet the *City of Boerne* standard in the context of the unfair competition claims alleged against the Florida agency. The University has submitted an *amicus* brief in the companion case to this case (*Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank and United State of America*, No. 98-531) that sets forth its views that Congress cannot invoke its authority to abrogate state immunity under the Due Process Clause in the absence of evidence that States are not providing adequate process to redress state deprivation of constitutionally-protected property interests.

[7] There is one other route to obtain federal court adjudication of federal issues involving States. That is an injunction action against state officials (but not the State itself) to prevent continued actions found to violate constitutional or statutory limitations on state action. *See Ex Parte Young*, 209 U.S. 123 (1908); *Edelman v. Jordan*, 415 U.S. 651 (1974).

B. The Constructive Waiver Doctrine Is Not Consistent with Federalism Principles.

The *Parden* decision, acknowledged by its author to resolve an issue of first impression (*see Employees v. Missouri Dep't of Pub. Health*, 411 U.S. 279, 299 (1973) (dissenting opinion of Brennan, J.)), permitted employees of the State of Alabama to pursue a suit against the State under the Federal Employees Liability Act ("FELA") in federal court. Subsequent applications of the *Parden* rule considered by this Court have also involved suits by employees against state agencies. *See Employees v. Missouri Dep't of Pub. Health*, *supra* (suit for overtime pay under the Fair Labor Standards Act); *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234 (1985) (suit under the Rehabilitation Act for reinstatement and back pay); *Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468 (1987) (suit by employee under the Jones Act).

The *Parden* rule, as modified by later decisions, finds a constructive waiver of sovereign immunity when a State chooses to maintain activities in the face of an unequivocal provision in a federal statute that States will be subject to federal court suits under the statute to the same extent as private parties.[8] The court below derived from *Employees v. Missouri Dep't of Pub. Health* the additional requirement that the activity with respect to which the State is being sued not be an important or a core government function.

The *Parden* rule, as originally conceived and as it has been narrowed, is not faithful to the constitutional structure in general or to the Eleventh Amendment in particular. To begin with, the notion of constructive or implied waiver has

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[8] The specific holding in *Parden* is no longer governing law, given that the FELA does not contain an unequivocal waiver provision that the later cases have found to be a *sine qua non* of the constructive waiver doctrine. *See Hilton v. South Carolina Pub. Rys. Comm'n*, 502 U.S. 197 (1991).

no grounding in actual fact. There is no reason to believe that in any of the cases in which the *Parden* rule has been applied, the State or state agency in question knowingly consented to being sued in federal court under the various federal regulatory statutes that were invoked in those cases. In analogous circumstances, neither this Court nor, to our knowledge, any federal court has accepted a contention that the federal government has constructively or impliedly waived *its* immunity from suit. *See United States v. Mitchell*, 445 U.S. 535, 538 (1980) ("A waiver of sovereign immunity 'cannot be implied but must be unequivocally expressed.'"), quoting *United States v. King*, 395 U.S. 1, 4 (1969).

Moreover, the notion of implied waiver cannot be reconciled with this Court's repeated holdings that state Eleventh Amendment immunity can be expressly waived only where there has been an unequivocal legislative enactment that specifically references federal court actions, or evidence that the official purporting to waive the State's immunity in the context of a particular federal court case is specifically authorized to do so under state law (constitution, statute or judicial decision). *See supra* pp. 6-7. Those holdings derive from a recognition that a constitutionally-protected right ought not be deemed waived unless there is a high degree of certainty that such a significant action was intended. No such certainty is possible in the implied waiver context. To the contrary, in the absence of express statutory waiver by the State, a better "implication" is that no willingness to be subjected to suit in federal court was ever intended.

The brief of the United States acknowledges the inappropriateness of implying a waiver of constitutionally-protected immunity when a State is carrying out normal state functions, even in the face of an Act of Congress containing an abrogation or waiver clause. But it argues that such conduct can amount to a "truly voluntary" waiver if the

"conduct in question involves activities that the State can realistically choose to abandon." Brief for the U.S., p. 24. It then attempts to categorize the activity at issue in this case as "genuinely voluntary" on the basis that, even though education is an historic state function, the marketing of "investment products" is neither a traditional nor a necessary means of carrying out that function. *Id.* at 27.

The distinction sought to be drawn between traditional state functions and those that are "genuinely voluntary" and thus "realistic" candidates for abandonment is devoid of any constitutional underpinning that would sustain the implied waiver doctrine. Certainly, there is nothing in the text or context of the Eleventh Amendment to support the notion that a State may impliedly waive the protections of that amendment when it engages in certain types of federally-regulated activities, but not in others. Nor is the distinction urged one that has any currency in other areas of constitutional law that might reasonably be imported into the Eleventh Amendment. To the contrary, outside of the Eleventh Amendment, variations on the traditional/voluntary distinction urged by the United States have twice before been expressly rejected by the Court as a means of determining the applicability of constitutional provisions to state activities. The Court's prior experience with the type of distinction urged by the United States demonstrates that it is both "unsound in principle and unworkable in practice." *Garcia v. San Antonio Metro. Transit Auth.*, 469 U.S. 528, 546 (1985).

The Court first considered the type of distinction advanced by the United States in the area of state immunity from federal taxation. In *South Carolina v. United States*, 199 U.S. 437 (1905), the Court held that state immunity from federal taxation extended only to the "ordinary" and "strictly governmental" instrumentalities of state governments and not to instrumentalities "used by the State in the carrying on of an ordinary private business." *Id.* at 451, 461. The

reasoning for making such a distinction was remarkably similar to that pressed by the United States here, *i.e.*, that a State that "chooses to go into the business of buying and selling commodities" has also chosen to "divest[ ] itself of its . . . sovereignty *pro tanto*" and is thus subject to the taxing power of the federal government. *Ohio v. Helvering*, 292 U.S. 360, 369 (1934). For forty years the federal courts struggled to apply the "governmental/proprietary" distinction in intergovernmental taxation before the Court rejected it altogether as "untenable." *See New York v. United States*, 326 U.S. 572, 583 (1946) (opinion of Frankfurter, J., joined by Rutledge, J.); *id.* at 586 (Stone, C.J., concurring, joined by Reed, Murphy, and Burton, JJ.); *id.* at 590-96 (Douglas, J., dissenting, joined by Black, J.).

The governmental/proprietary distinction was next applied in the area of state immunity from federal regulation. In *National League of Cities v. Usery*, 426 U.S. 833 (1976), the Court held that, by virtue of the Tenth Amendment, the Commerce Clause did not empower Congress to enforce the minimum-wage and overtime provisions of the Fair Labor Standards Act against the States "in areas of traditional governmental functions." *Id.* at 852. But eight years later, in *Garcia*, the Court again concluded that "neither the governmental/proprietary distinction nor any other that purports to separate out important governmental functions can be faithful to the role of federalism in a democratic society." 469 U.S. at 546-57. The Court went on to explain that:

> [t]he essence of our federal system is that within the realm of authority left open to them under the Constitution, the States must be equally free to engage in any activity that their citizens choose for the common weal, no matter how unorthodox or unnecessary anyone else—including the judiciary—deems state involvement to be. Any rule of state immunity that looks to the 'traditional,' 'integral,'

> or 'necessary' nature of governmental functions inevitable invites an unelected federal judiciary to make decisions about which state policies it favors and which ones it dislikes . . . . [T]he States cannot serve as laboratories for social and economic experiment, *see New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting), if they must pay an added price when they meet the changing needs of their citizenry by taking up functions that an earlier day and a different society left in private hands.

Id. at 546.

The distinction urged by the United States in this case is equally unworkable and unsound, because there is no principled way to categorize state activities in the way the federal petitioners suggest. States are representative governments that undertake their activities based on determinations by legislative and/or executive officials that the interests of the State and its citizens will be advanced by doing so. Whether the subject area of state activity is law enforcement, education, welfare, or transportation, any particular manner of exercising sovereign power will always represent a governmental "choice" that can at some level be described as "voluntary" and therefore an implied waiver of immunity.

For example, one State may choose to promote college attendance of its citizens by providing for modest tuition costs at state institutions (a policy followed by the University of California for many years, to the immense advantage of countless thousands of Californians). Another, like Florida, may choose to offer investment vehicles to allow parents to provide in advance for the tuition costs of their children. Another choice might be an expansive scholarship program, based on need, or on performance, or on demonstrated talent or potential. Scholarships and tuition subsidies might be

financed by state general revenues or by university-related activities such as publishing or the license of patents resulting from research activity. Any one of these choices might conceivably be abandoned, but that is not a basis for categorizing the state function—in this example, promotion of education—as so different from others as to warrant a lesser degree of Eleventh Amendment protection.[9]

The United States brief attempts to justify its proposed distinction by comparing a state operated police force, which it says cannot realistically be abandoned, with the use of investment products to allow parents to provide for the cost of their children's college education, which the United States describes as "neither a traditional nor a necessary means of facilitating the State's educational mission." Brief for the U.S., pp. 26, 27. With all respect, the example demonstrates why the proposed distinction is meaningless. In fact, few if any States operate "traditional" police forces (though they typically operate highway patrols, anti-drug task forces, or the like). Many States do provide support for locally operated police forces, however, and that support can come in various forms. Is the provision of technical assistance by a cadre of state employees an activity that the State could "realistically choose to abandon," such that the State waives its Eleventh Amendment immunity if, for example, it maintains the activity in the face of a provision in the federal Fair Labor Standards Act that purports to authorize suits by state employees against state agencies? The *choice* of how to aid local police efforts is no different, for Eleventh Amendment purposes, from the *choice* of how to provide for the higher education of state youth. The fact that each

[9] Similarly, application of a State's immunity from federal court suit cannot be made to turn on a judicial assessment of the "importance" of the particular state function. Even the petitioner acknowledges that "virtually any activity undertaken by a state could be interpreted as assisting some function deemed to be important to a state government." Pet'r Br., p. 41.

choice could be abandoned does not warrant a conclusion that its selection is intended to waive the constitutional immunity from federal court that all States possess.

The "traditional/voluntary" distinction may have a superficial appeal, as evidenced by the Court's previous attempts to apply it in the areas of intergovernmental tax immunity and federal regulation of state activities. But, the Court ultimately recognized that these attempts were fundamentally flawed and that the States' "residuary and inviolable sovereignty" is to be protected not by judicial linedrawing reflecting "predetermined notions of sovereign power," but rather in "the structure of the Federal Government itself." *Garcia*, 469 U.S. at 550 (citation omitted). In the context of the Eleventh Amendment, the structure of the Constitution recognizes a state sovereign immunity from suit in federal court that is not limited to subject matter and which acts to expressly limit Congress's Article I powers. The parsing of state activities advocated by the United States, whether by congressional enactment or by judicial decision, should be rejected as inconsistent with the structure of the Constitution and the Eleventh Amendment's express limitations on federal authority.

II. CONSTRUCTIVE WAIVER CANNOT BE JUSTIFIED BY ANALOGIZING STATES TO PRIVATE ENTITIES.

A. States Are Not Equivalent to Private Market Participants.

The United States brief seeks to justify the constructive waiver doctrine by analogizing States to private market participants. As argued by the United States,

> [w]hen a State chooses to operate a commercial enterprise of a sort traditionally run by private persons, the Eleventh Amendment does not entitle it to invoke its status as a State to gain a competitive

> advantage. . . . Having chosen to operate a commercial enterprise well removed from the State's traditional sphere, Florida Prepaid should not be permitted a constitutional exemption from the restrictions that bind its competitors.

Brief for the U.S., p. 29. Petitioner makes the same argument. Pet'r Br., p. 39.[10]

Arguments along these lines fail to appreciate the decisive differences between States and private market participants even where a State's activities place it in a position of possible competition with private entities. Those differences demonstrate why it is inappropriate to withhold Eleventh Amendment immunity from States with respect to these categories of activities.

A State acts to advance the public interest, as it is perceived by state legislators and by administrators responsible for executing state laws and operating state programs. That is fundamentally different from the profit motive that drives the typical private market competitor. The private participant's decision to remain in the market turns on business considerations and alternative opportunities. By contrast, the State's market participation decisions derive from its mission to serve the needs of its citizens.

Because States act for the public interest, they make all kinds of choices that have no equivalent in the private sector.

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[10] Similar rationales have been accepted by some lower courts that have refused to honor a State's immunity from suit in federal court. For example, in the companion to this case, the Federal Circuit Court of Appeals stressed that the abrogation of state immunity from suit in the patent context satisfied the *City of Boerne* standard because it merely subjected States to the same civil remedies that are applicable to their private market competitors. *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1343 (Fed. Cir. 1998).

For example, as market participants, States might restrict their sales to in-state buyers, even though a rational seller would look for the buyer willing to pay the highest price. *See Reeves, Inc. v. Stake*, 447 U.S. 429 (1980). They might hire only in-state employees, although a rational employer would look for the cheapest labor force. *See White v. Massachusetts Council of Constr. Employers, Inc.*, 460 U.S. 204 (1983). And they might choose to purchase only from in-state companies, even though a rational business would impose no such restriction. *See Hughes v. Alexandria Scrap Corp.*, 426 U.S. 794 (1976). Because the Court held in each of these cases that the Commerce Clause did not prohibit a State acting in the marketplace to favor in-state interests, the United States cites them for the proposition that the States should be subject to the same "terms of engagement" as private firms. Brief for the U.S., p. 30. The more appropriate conclusion is that even when States act as market participants, their actions still reflect their status as representative governments, not private competitors.

The fallacy of the United States' suggestion that the implied waiver doctrine must be recognized in order to "level the playing field" between state governments and private companies is also evident in the Court's decision in *Employees v. Missouri Dep't of Pub. Health, supra,* which was decided after *Parden* and which substantially limited its scope. Certainly, the principal area in which the States uniformly "compete" with private companies is the labor market—and yet the Court in that case concluded that Missouri had not impliedly waived its Eleventh Amendment immunity from a suit for overtime pay under the Fair Labor Standards Act ("FLSA") simply by hiring employees. 411 U.S. at 285-87. Thus, the State was not subject to suit in federal court for failure to pay overtime, even if a private employer would be.

Would not immunity from suit in a federal forum give a State a competitive advantage over private companies with

respect to its labor costs? Even assuming that an FLSA suit could not be brought in state court, *cf. Alden v. Maine*, No. 98-436, the answer is: not likely. A State is a sovereign government responsible to its citizenry, and its role as employer is therefore fashioned by considerations not necessarily relevant to a private employer. Because they are governments, States generally impose upon themselves open records laws and other public obligations that would be inconceivable to private, profit-making entities. State decisionmakers may also determine that the public interest demands that they offer their employees more secure job tenure, or health insurance and other benefits not uniformly offered in the private sector.

Moreover, a State faces constitutional constraints that are not visited upon private parties. For example, a public employer such as a State must be cognizant of First Amendment concerns in dealing with its employees and contractors, while a private party does not. *See Board of County Comm'rs v. Umbehr*, 518 U.S. 668 (1996); *Pickering v. Board of Educ.*, 391 U.S. 563 (1968). States may likewise owe due process protections to their employees and business partners, while private parties do not. *See Perry v. Sindermann*, 408 U.S. 593 (1972); *Cleveland Bd. of Educ. v. Loudermill*, 391 U.S. 563 (1968). The Constitution therefore does not establish or require "evenhandedness" between States and private parties but, recognizing the unique status of the former, imposes obligations and grants immunities not applicable to private parties.

These differences between representative state governments and private actors underscore the lack of a valid constitutional underpinning to the implied waiver doctrine. Contrary to the United States' argument, a State's decision to enter the commercial marketplace does not mean that it will act like a commercial entity, and therefore must be treated like one. States have different motivations, different constituencies, and different obligations than their private

counterparts. They do not enter the marketplace as competitors seeking an advantage but as sovereigns serving the public interest, and the Eleventh Amendment treats them accordingly.

B. Implied Waiver is No Different Than the Abrogation Power Rejected in *Seminole Tribe*.

Because all state activity represents choices made by government bodies to advance public ends, there is no real distinction between the constructive waiver approach and the abrogation approach under Article I that this Court rejected in *Seminole Tribe*. This is well illustrated in the decision below, where the provision relied upon by the court to find that Congress unambiguously intended participation in an area of activity to constitute a waiver of immunity is precisely the provision that the court held to be an invalid abrogation of that immunity. *See College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 131 F.3d 353, 363 (3d Cir. 1997). And when the unwarranted distinctions—between activities that a State can supposedly abandon and those that it cannot—are put aside, the constructive waiver doctrine is no more or less than a back door way for Congress to accomplish what *Seminole Tribe* precludes it from doing directly.

To the extent an abrogation of a Eleventh Amendment immunity can be justified under the Fourteenth Amendment, it represents a *pro tanto* ceding of sovereignty by States to the national government in the interest of enhancing the "more perfect union." When that power is not available, a State's immunity from suit by a private party in federal court should be respected except in those cases where there has been a genuine and clear decision by the State not to invoke it. The constructive waiver doctrine, as it has developed in the *Parden* line of cases, has no place in this regime.

CONCLUSION

For the foregoing reasons, the University respectfully urges the Court to reject what remains of the *Parden* constructive waiver doctrine, and to reaffirm the application of Eleventh Amendment immunity except where a State has knowingly and unmistakably elected not to invoke it, or where Congress has validly abrogated it in the exercise of its enforcement power under Section 5 of the Fourteenth Amendment or similar provisions of other Amendments.

Respectfully submitted,

JAMES E. HOLST
JOHN F. LUNDBERG
P. MARTIN SIMPSON, JR.
OFFICE OF THE GENERAL COUNSEL
UNIVERSITY OF CALIFORNIA
1111 Franklin Street
Oakland, California 94607
(510) 987-9800

RICHARD L. STANLEY
ARNOLD, WHITE & DURKEE
750 Bering Drive, Suite 400
Houston, Texas 77057
(713) 777-1499

CHARLES A. MILLER
Counsel of Record
CAROLINE M. BROWN
COVINGTON & BURLING
1201 Pennsylvania Ave., NW
Washington, D.C. 20044
(202) 662-6000

GERALD P. DODSON
MORRISON & FOERSTER
755 Page Mill Road
Palo Alto, CA 94304-1018
(650) 813-5600

Attorneys for *Amicus Curiae*
The Regents of the
University of California

No. 98-149

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IN THE
Supreme Court of the United States
OCTOBER TERM, 1998

COLLEGE SAVINGS BANK,
Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD,
Respondent.

**On Writ of Certiorari to the
United States Court of Appeals
for the Third Circuit**

BRIEF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES, COUNCIL OF STATE GOVERNMENTS, NATIONAL ASSOCIATION OF COUNTIES, NATIONAL LEAGUE OF CITIES, INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION, AND U.S. CONFERENCE OF MAYORS AS *AMICI CURIAE* SUPPORTING RESPONDENT

RICHARD RUDA *
Chief Counsel
JAMES I. CROWLEY
STATE AND LOCAL LEGAL CENTER
444 North Capitol Street, N.W.
Suite 345
Washington, D.C. 20001
(202) 434-4850
* Counsel of Record for the
Amici Curiae

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QUESTION PRESENTED

Amici will address the following question:

Whether Florida impliedly waived its Eleventh Amendment immunity from suit in federal court by operating a prepaid tuition program.

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BRIEF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES, COUNCIL OF STATE GOVERNMENTS, NATIONAL ASSOCIATION OF COUNTIES, NATIONAL LEAGUE OF CITIES, INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION, AND U.S. CONFERENCE OF MAYORS AS *AMICI CURIAE* SUPPORTING RESPONDENT

INTEREST OF THE *AMICI CURIAE*

Amici are organizations whose members include state, county and municipal governments and officials throughout the United States.[1] *Amici* have a com-

[1] Pursuant to Rule 37.3 of the Rules of this Court, the parties have consented to the filing of this brief *amicus curiae*. Their letters of consent have been filed with the Clerk of the Court. Pursuant to Rule 37.6, *amici* state that this brief was not authored in whole or in part by counsel for a party, and no person or entity, other than *amici* or their members, made a monetary contribution to the preparation or submission of this brief.

pelling interest in legal issues that affect state and local governments.

The Eleventh Amendment is one of the principal constitutional protections of state sovereignty. It confirms that "each State is a sovereign entity in our federal system" and that "'[i]t is inherent in the nature of sovereignty not to be amenable to the suit of an individual without its consent.'" *Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 54 (1996) (citations omitted). This Court has held that "[a] sovereign's immunity may be waived" but has "insisted . . . that the State's consent be unequivocally expressed." *Pennhurst State School & Hosp. v. Halderman*, 465 U.S. 89, 99 (1984). The Court's longstanding "reluctance to infer that a State's immunity from suit in the federal courts has been negated stems from recognition of the vital role of the doctrine of sovereign immunity in our federal system." *Id.*

In the face of these fundamental principles of constitutional federalism, petitioner College Savings Bank and the United States nonetheless urge this Court to hold that States can "impliedly" waive their Eleventh Amendment immunity and that the state agency in this case has done so. *Amici* believe that acceptance of these erroneous contentions by this Court would "upset[] 'the fundamental constitutional balance between the Federal Government and the States,' placing a considerable strain on '"the principles of federalism that inform Eleventh Amendment doctrine."'" *Dellmuth v. Muth*, 491 U.S. 223, 227 (1989) (citations omitted). *Amici* therefore submit this brief to assist the Court in its resolution of this case.

STATEMENT

1. "Since the end of World War II, providing financial access to college for all who can benefit from it has been one of the nation's primary goals." Jerry S. Davis, *College Affordability: A Closer Look At The Crisis* 3 (Sallie Mae Education Institute, 1997). The widening difference in earnings between "those with college degrees and those without them" has made attending college steadily more important, yet "rising college costs have caused many parents to worry that the education they consider vital to their children's success and well-being is becoming affordable only to the wealthy." *Id. See also* Lily Eng & Karen Heller, "For Many, College Is Slipping Out of Reach; Soaring Costs Are Closing Doors for the Middle Class," *Philadelphia Inquirer*, Apr. 1, 1996, at A1 ("Many American families . . . are angered and frustrated by the cost of attending college, which has accelerated at more than twice the rate of inflation for the last 15 years.").

Several factors contributed to the development of this serious national problem. Chief among these was the substantial increase in college costs, which from 1980 to 1987 rose an average of 8.8 percent annually, nearly twice the rate of inflation and far exceeding the 5.6 percent growth rate of median family income. U.S. General Accounting Office, *College Savings: Information on State Tuition Prepayment Programs* 12 (Aug. 1995) ("GAO Report"). Contributing to the crisis was the fact that from 1980 to 1987 federal student aid decreased on an inflation-adjusted basis, *id.* at 13-14, and student aid packages reduced the amount of outright grants in favor of increased loans, with the result that "student debt increased

60 percent between 1980 and 1987." *Id.* at 14.[2] These developments made it "apparent that fewer families would be able to finance higher education out of current income while their children were enrolled in college" and that planning and saving for future college education was essential. *Id.*

2. The GAO Report describes the governmental reaction in the mid-1980s to these increasing concerns "about the future ability of average American families to afford a college education for their children." *Id.* at 12. "In response," the GAO report continues, "both state and federal government officials sought ways to encourage and help families to save for college." *Id.* "One innovative approach . . . allows people to pay roughly current prices for tuition at participating colleges in exchange for a guarantee that a child's future tuition bill at one of these institutions will be covered, no matter how high costs rise. These programs are known as tuition prepayment programs." *Id.*

The Michigan Education Trust (MET), created by an act of the Michigan legislature and signed into law by the governor on December 23, 1986, was the first state prepaid tuition program. *See Michigan v. United States*, 40 F.3d 817, 818 (6th Cir. 1994) (citing M.C.L.A. 390.1421 *et seq.*). The Florida legislature followed in 1987, *see* Fla. Stat. § 240.551,

[2] The trend of college costs increasing at rates greater than inflation has continued in the 1990s. GAO Report at 12. Between 1990 and 1996 the "total cost of attending private colleges and universities [grew] 95 percent" and "[t]otal costs for attending public institutions have gone up by 82 percent." National Association of State Treasurers, College Savings Plans Network, *Special Report on State College Savings Plans* 1 (1996) (citation omitted) (*"State College Savings Plans"*).

Ohio in 1989, *see* O.R.C. § 3334.02, Alabama in 1990, *see* Ala. Code § 16-33C-6, Alaska in 1991, *see* Alaska Stat. § 14.40.803, and Pennsylvania in 1992, *see* 24 Pa. Cons. Stat. § 6901.101. *See generally State College Savings Plans* at 8.

The Michigan program was revolutionary. It received "a great deal of attention nationwide, both in other states and the popular press; in fact, the enactment of MET has been called 'the most widely publicized government action in the field of higher education finance during the 1980s.'" *GAO Report* at 15 (citation omitted). "Soon, programs similar to MET were under consideration in as many as 40 states." *Id.* As the litigation between the State of Michigan and the Internal Revenue Service demonstrates, however, "[t]he most serious issue facing state tuition prepayment programs" was "the potential applicability of federal tax provisions." *Id.* at 93.

3. Two key developments eliminated the obstacles to state tuition prepayment programs posed by unfavorable federal tax treatment of the plans and opened the door to the creation of such plans by increasing numbers of States. One was that the Sixth Circuit ruled in favor of the State of Michigan in its litigation with the Internal Revenue Service. *See Michigan v. United States*, 40 F.3d at 825-29 (holding that investment income from MET was not subject to federal income taxation). In the course of holding that MET's investment income was not taxable by the federal government, the court of appeals explained:

> [W]e think it obvious that encouraging higher education by helping provide the means for attendance at Michigan's public colleges and universities—the basic function for which the education trust was established by the Michigan legisla-

> ture—is at least as much a 'public function' as building and operating bridges and tunnels. *See Brown v. Bd. of Education*, 347 U.S. 483, 493 (1954), where the Supreme Court said that "education is perhaps the most important function of state and local governments."

40 F.3d at 825.

The other major development was that Congress, in the mid-1990s, enacted a number of changes in the tax code that encouraged the development of state pre-paid tuition plans. The first such enactment was § 1806 of the Small Business Job Protection Act of 1996, P.L. 104-188. *See* Patrick Healy, "U.S. Gives States Nod on Prepaid-Tuition Plans," *Chronicle of Higher Education*, Sept. 6, 1996, at A60.

Section 1806 provides that a "qualified State tuition program," defined as "a program established and maintained by a State or agency or instrumentality thereof," shall be "exempt from taxation." 110 Stat. 1895. The Senate Report accompanying this legislation set forth its purpose: "to clarify the tax treatment of State-sponsored prepaid tuition and educational savings programs in order to encourage persons to save to meet post-secondary educational expenses." S. Rep. No. 281, 104th Cong., 2d Sess. 106 (1996), *reprinted in* 1996 U.S.C.C.A.N. 1474, 1580.

Further favorable federal tax treatment followed the next year in the Taxpayer Relief Act of 1997, P.L. 105-34, which extends the federal tax exemption for state prepaid tuition programs to the costs of room and board. *See* P.L. 105-34, § 211, 111 Stat. 810; Kristin D. Conklin, *Federal Tuition Tax Credits And State Higher Education Policy: A Guide for*

State Policy Makers 3 (National Center for Public Policy and Higher Education, 1998).[3]

4. The cumulative result of the college affordability crisis and the state and federal response is that today more than 40 States have adopted a variety of measures to address this matter of pressing national concern. *See id.* at 26-27 (Table 7). Of these, 22 States have established prepaid tuition programs. *See id.*; *see also* Appendix. Indeed, 47 States have now either established or are seriously considering the establishment of a state program to enable their citizens to prepay tuition or save for college. *See* Conklin, *Federal Tuition Tax Credits* at 26-27 (Table 7).

As noted above, Florida was among the pioneers in responding to the college affordability crisis. The State enacted its prepaid tuition program in 1987, five years before Congress passed the Trademark Remedy Clarification Act. Florida offers plans covering tuition for up to four years at a public university, two years at a community college, or two years at a community college and two at a public university, as well as a plan covering dormitory fees. *See* Fla. Stat. § 240.551. As of 1996, 375,546 tuition and dormitory fee contracts had been purchased and 18,000 students had utilized benefits. *State College Savings Plans* at 11.

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[3] State prepaid tuition programs are also supported by the Executive branch. Describing the importance of state prepaid tuition plans as a means of responding to parents' anxiety about college tuition, David A. Longanecker, U.S. Assistant Secretary of Education for Postsecondary Education, has said, "I'm glad we have the plans. I'm sorry we need them." *N.Y. Times*, "Tuition Prepayment Gains Favor as College Costs Skyrocket," Aug. 21, 1996, at B7.

SUMMARY OF ARGUMENT

A. The Court should overrule its holding in *Parden v. Terminal Ry. of Ala. Docks*, 377 U.S. 184 (1964), that a State can "impliedly consent" to suit in federal court. Neither that holding nor the premises that supported it can be reconciled with the Court's Eleventh Amendment jurisprudence.

1. The holding of *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996)—that Congress lacks the power to abrogate the States' Eleventh Amendment immunity when legislating pursuant to the Commerce Clause—is fatal to the contention that a State can impliedly consent to suit in federal court under a Commerce Clause enactment. "Abrogation" and "waiver" are so closely related that, as the Court has held, congressional intent to abrogate is the "necessary predicate" for the doctrine of implied waiver of Eleventh Amendment immunity. *Fitzpatrick v. Bitzer*, 427 U.S. 445, 451-52 (1976). Even if Congress could intend to abrogate the States' immunity when legislating under its commerce power, a State cannot be held to have impliedly waived its immunity as a result of such an enactment. *See Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 42-44 (1989) (Scalia, J., dissenting). Therefore, where, as here, Congress lacks the power to abrogate, it lacks power to condition the States' ability to engage in conduct on their "implied waiver" of immunity.

2. The notion that a State can "impliedly" waive its sovereign immunity is irreconcilable with the Court's many "clear statement" cases. These cases hold not only that Congress must state its intent to abrogate clearly and unequivocally, but that a State will be held to have waived its Eleventh Amendment immunity only if that waiver is clearly and unequivocally expressed. "[T]he salient point" is that the Court must have "perfect confidence" that a State's immunity is to be negated; "imperfect confidence will not suffice given the special constitutional concerns in this area." *Dellmuth v. Muth*, 491 U.S. 223, 231 (1989). As the Court put it in *Edelman v. Jordan*, 415 U.S. 651, 673 (1974), "Constructive consent is not a doctrine commonly associated with the surrender of constitutional rights, and we see no place for it here."

3. In the course of overruling *Union Gas*, the *Seminole* Court analyzed a number of additional factors that supported its decision. *See* 517 U.S. at 63-66. The same factors support overruling *Parden*. They include the fact that the Court has never subsequently found an implied waiver of state sovereign immunity and has narrowed or distinguished *Parden* in each subsequent case in which it has been considered, that *Parden* has sown confusion in the lower courts and, most significantly, that *Parden* is grounded on a one-sided view of the federal-state balance that the Court has repeatedly rejected.

B. Even if the Court concludes that *Parden* is still good law, Florida Prepaid has not impliedly waived Florida's sovereign immunity. *Amici* agree with Florida Prepaid that it is "engaged in an important governmental function; therefore, the *Parden* doctrine of waiver does not apply" to it. Pet. App. 22a.

Florida Prepaid should prevail even if the Court does not reach this issue, however. *Parden* itself makes clear that a State does not impliedly consent to suit when it continues to engage in an activity after Congress expresses its intent that States be subject to suit. The federal statute at issue in *Parden*, the FELA, had been enacted in 1908; twenty years later Alabama commenced the operation of a rail-

road. *Parden* held "simply that Alabama, when it began operation of an interstate railroad approximately 20 years after enactment of the FELA, necessarily consented to such suit as was authorized by that Act." 377 U.S. at 192. As Justice Marshall later explained, "To suggest that the State had the choice of either ceasing operation of . . . vital public services or 'consenting' to federal suit suffices . . . to demonstrate that the State had no true choice at all and thereby that the State did not voluntarily consent to the exercise of federal jurisdiction in this case." *Employees of the Dept. of Public Health & Welfare v. Dept. of Public Health & Welfare*, 411 U.S. 279, 296 (1973) (Marshall, J., concurring in the result).

The state agency in this case was created by the Florida Legislature in 1987 and commenced operations in 1988. Congress did not subject the States to suit under the Lanham Act until 1992. Consequently, Florida Prepaid's failure to terminate its programs following Congress' decision to subject States to suit cannot be deemed an implied waiver of Florida's Eleventh Amendment immunity.

ARGUMENT

FLORIDA PREPAID DID NOT IMPLIEDLY WAIVE FLORIDA'S ELEVENTH AMENDMENT IMMUNITY FROM SUIT IN FEDERAL COURT

A. The *Parden* "Implied Consent" Holding Has Not Survived This Court's Subsequent Decisions And Should Be Expressly Overruled

In *Parden v. Terminal Ry. of Ala. Docks Dept.*, 377 U.S. 184, 192 (1964), this Court held that the State of Alabama, "when it began operation of an interstate railroad approximately 20 years after enactment of the FELA, necessarily consented to such suit as was authorized by that Act." Two core premises underlay the Court's ruling. The first was that the broad language of the FELA adequately expressed Congress' intent to subject States to suit in federal court. *See id.* at 188-90. The second was that Congress was empowered to abrogate the States' Eleventh Amendment immunity when legislating pursuant to the Commerce Clause. *See id.* at 190-92. With respect to this latter point, the *Parden* Court reasoned that "the States necessarily surrendered any portion of their sovereignty that would stand in the way of [Commerce Clause] regulation." *Id.* at 192.

Neither *Parden*'s holding that a State can "impliedly" consent to suit in federal court, nor the premises that were the predicate for that holding, can be reconciled with the Court's Eleventh Amendment jurisprudence. As Justice Kennedy noted just last Term, "the Court's recent cases have disfavored constructive waivers of the Eleventh Amendment and have required the State's consent to suit to be unequivocal." *Wisconsin Dept. of Corrections v. Schacht*, 118 S.Ct. 2047, 2057 (1998) (Kennedy, J., concurring).

As for the premises of *Parden*'s holding, *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), puts to rest the notion that Congress can abrogate the States' Eleventh Amendment immunity when legislating pursuant to its commerce power. In addition, a long line of cases leaves no doubt that "Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute." *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 242 (1985).

Both the holding and the reasoning of *Parden* are thus irreconcilable with this Court's Eleventh Amend-

ment jurisprudence. Congress lacks power to abrogate the States' immunity when legislating under its commerce power, and the notion of "implied consent" is antithetical to the Eleventh Amendment "clear statement" rule. *Amici* therefore respectfully urge the Court to expressly overrule *Parden*.

1. *Because Congress Lacks Power To Abrogate When Legislating Pursuant To Its Commerce Power, A State Cannot "Impliedly Consent" To Suit Under A Commerce Clause Enactment*

Seminole Tribe's holding that Congress lacks the power to abrogate when legislating pursuant to the Commerce Clause is alone fatal to the contention that Florida Prepaid could consent to suit in this case. Abrogation and waiver are integrally related concepts; indeed, they are two sides of the same coin. They are so closely related that Congress' intent to abrogate is, as this Court has held, a necessary predicate for the States' waiver of their constitutional immunity. Even if Congress could intend to abrogate when legislating under its commerce power, States cannot impliedly consent to suit under Commerce Clause enactments such as the Lanham Act.[4]

[4] *Amici* agree with respondent and the United States that a state agency that allegedly "engages in false and misleading advertising of its own product does not thereby 'deprive' a competitor of 'property' within the meaning of the Fourteenth Amendment, even if the competitor suffers pecuniary harm." U.S. Br. 30-31; Respondent's Br. 7-17. *Amici* therefore treat petitioner's Lanham Act allegations as raising constitutional issues only under the Commerce Clause, and not under § 5 of the Fourteenth Amendment.

Amici submit that College Savings Bank's § 5 arguments with respect to the Lanham Act are even weaker than those with respect to the Patent Act. *See* Br. *Am. Cur.* National Conference of State Legislatures *et al., Florida Prepaid Post-secondary Education Expense Board v. College Savings Bank* (No. 98-531), at 11-23 (filed Feb. 22, 1999).

In *Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976), this Court expressly acknowledged the interconnectedness of intent to abrogate and the implied waiver doctrine. In *Fitzpatrick*, the Court explained its holding in *Edelman v. Jordan*, 415 U.S. 651 (1974), as follows:

> In *Edelman* this Court held that monetary relief awarded by the District Court . . . violated the Eleventh Amendment. . . .
>
> *Edelman* went on to hold that the plaintiffs in that case could not avail themselves of the doctrine of waiver expounded in cases such as *Parden v. Terminal R. Co.*, 377 U.S. 184 (1964), and *Employees v. Missouri Public Health Dept.*, 411 U.S. 279 (1973), because the necessary predicate for that doctrine was congressional intent to abrogate the immunity conferred by the Eleventh Amendment.

427 U.S. at 451-52. The Court thus made clear that there can be no implied waiver of sovereign immunity by the States unless Congress intends to abrogate that immunity.

This point was later amplified by Justice Scalia in his dissenting opinion in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 29-45 (1989). Justice Scalia questioned, in light of his view that Congress could not abrogate the States' immunity when legislating under its Article I powers, "the continuing validity of *Parden*'s holding" as to Congress' authority to elicit the States' implied consent to suit. *Id.* at 43. "There are," he wrote, "obvious and fatal difficulties in acknowledging such a power if no Commerce Clause power to abrogate state sovereign immunity exists." *Id.* at 43. Given the fact that "*all* federal

prescriptions are . . . in a sense conditional," all "can be redescribed as invitations to 'waiver'. . . . in exchange for federal permission to engage in that activity." *Id.* at 43-44.

Consequently, "to acknowledge that the Federal Government can make the waiver of state sovereign immunity a condition to the State's action in a field that Congress has authority to regulate is substantially the same as acknowledging that the Federal Government can eliminate state sovereign immunity in the exercise of its Article I powers." *Id.* at 44. Justice Scalia thus reiterated the holding of *Edelman* that when Congress lacks the power to abrogate, it necessarily lacks power to condition the States' ability to engage in conduct on their "implied waiver" of immunity.

Indeed, even *Parden* itself rested on the view that when Congress legislates under the Commerce Clause, congressional power to abrogate is an essential prerequisite to a State's implied waiver of immunity. *Parden* based its holding that Alabama had impliedly consented to suit on "the State's commission of an act to which Congress, in the exercise of its constitutional power to regulate commerce, has attached the condition of amenability to suit." 377 U.S. at 195. *See also Welch v. Texas Dept. of Highways*, 483 U.S. 468, 476 (1987) (*Parden*'s holding that Alabama had waived immunity was based on reasoning that in the FELA "Congress evidenced an intention to abrogate Eleventh Amendment immunity").

Because the Lanham Act was enacted pursuant to Congress' power to regulate interstate commerce, Congress lacked the power to abrogate the States' Eleventh Amendment immunity. Even if Congress could intend to abrogate when legislating under its

commerce power, a State cannot be held to have impliedly consented to suit as a result of such an enactment. Consequently, there can be no implied waiver by Florida Prepaid as a result of engaging in conduct regulated by the Lanham Act.

2. *"Implied Consent" To Suit Is Irreconcilable With The Clear Statement Rule and Its Purpose of Preserving the Federal-State Balance*

The Eleventh Amendment decisions of this Court since *Parden* firmly establish not only that Congress must state its intent to abrogate clearly and unequivocally, but also that States will be held to have waived their Eleventh Amendment immunity only if that waiver is clearly and unequivocally expressed. This stringent test is mandated by the vital role of the Eleventh Amendment in preserving the state-federal balance.

With respect to abrogation, the Court has held,

> "To temper Congress' acknowledged powers of abrogation with due concern for the Eleventh Amendment's role as an essential component of our constitutional structure, we have applied a simple but stringent test: 'Congress may abrogate the States' constitutionally secured immunity from suit in federal court only by making its intention unmistakably clear in the language of the statute.' "

Seminole Tribe, 517 U.S. at 56 (quoting *Dellmuth v. Muth*, 491 U.S. 223, 227-28 (1989)). *See also Atascadero*, 473 U.S. at 242. Likewise with respect to waiver,

> A sovereign's immunity may be waived, and the Court consistently has held that a State may consent to suit against it in federal court. We have insisted, however, that the State's consent

> be unequivocally expressed. . . . Our reluctance to infer that a State's immunity from suit in the federal courts has been negated stems from recognition of the vital role of the doctrine of sovereign immunity in our federal system.

Pennhurst State School & Hosp. v. Halderman, 465 U.S. 89, 99 (1984) (citations omitted). "[T]he salient point" is that the Court must have "perfect confidence" that a State's immunity is to be negated; "imperfect confidence will not suffice given the special constitutional concerns in this area." *Dellmuth*, 491 U.S. at 231.

This clear statement rule is a corollary of the broader principle of constitutional law that the Court "do[es] not presume acquiescence in the loss of fundamental rights." *Ohio Bell Tel. Co. v. Public Util. Comm'n*, 301 U.S. 292, 307 (1937). The classic formulation of this rule is in *Johnson v. Zerbst*: "[C]ourts indulge every reasonable presumption against waiver of fundamental rights. . . . A waiver is ordinarily an intentional relinquishment or abandonment of a known right or privilege." 304 U.S. 458, 464 (1938) (internal quotation omitted).

Nor is there any question that "[a] state's freedom from litigation was established as a constitutional right through the Eleventh Amendment." *Great Northern Life Ins. Co. v. Read*, 322 U.S. 47, 51 (1944) (emphasis added). Indeed, the majority opinion in *Parden*, as well as the dissent, acknowledged that the States' Eleventh Amendment immunity is a "right." *See* 377 U.S. at 193; *id.* at 200 (White, J., dissenting) ("Congress' failure to bring home to the State the precise nature of its option makes impossible the 'intentional relinquishment . . . of a known right or privilege' which must be shown

before constitutional rights may be taken to have been waived.") (quoting *Johnson*, 304 U.S. at 464).

Consequently, the Court has repeatedly shown great reluctance to infer that a State has impliedly waived its constitutional right to be free from suit in federal court. In *Edelman*, for example, the Court reasoned:

> Constructive consent is not a doctrine commonly associated with the surrender of constitutional rights, and we see no place for it here. In deciding whether a State has waived its constitutional protection under the Eleventh Amendment, we will find waiver only where stated "by the most express language or by such overwhelming implications from the text as [will] leave no room for any other reasonable construction."

415 U.S. at 673 (citation omitted). The *Edelman* Court reaffirmed that " 'when we are dealing with the sovereign exemption from judicial interference in the vital field of financial administration a clear declaration of the state's intention to submit its fiscal problems to other courts than those of its own creation must be found.' " *Id.* (quoting *Great Northern Life*, 322 U.S. at 54). *See also Welch*, 483 U.S. at 473; *id.* at 477 (" 'It should not be easily inferred that Congress, in legislating pursuant to one article of the Constitution, intended to effect an automatic and compulsory waiver of rights arising under another.' ") (quoting *Parden*, 377 U.S. at 198 (White, J., dissenting)).

Amici respectfully submit that *Parden*'s holding that the State of Alabama had "impliedly consented" to suit in federal court is flatly irreconcilable with the reasoning and holdings of the foregoing cases. Indeed, the above-quoted language from *Edelman* can fairly be read as overruling *Parden*'s holding that a State's entry into a federally regulated activity con-

stitutes an implied waiver of the State's sovereign immunity. *See Florida Dept. of Health & Human Servs. v. Florida Nursing Home Ass'n*, 450 U.S. 147, 150 (1981) (per curiam). Insofar as that view of *Edelman* is not adopted, *amici* submit that the Court should use this case to expressly overrule *Parden*.

The overruling of *Parden* is called for not only by the Court's Eleventh Amendment jurisprudence but also by the unbroken line of cases holding that the sovereign immunity of the United States cannot be impliedly waived. "It is elementary that '[t]he United States, as sovereign, is immune from suit save as it consents to be sued'. . . . A waiver of sovereign immunity 'cannot be implied but must be unequivocally expressed.'" *United States v. Mitchell*, 445 U.S. 535, 538 (1980) (quoting *United States v. Sherwood*, 312 U.S. 584, 586 (1941), and *United States v. King*, 395 U.S. 1, 4 (1969)). *See also United States v. Nordic Village, Inc.*, 503 U.S. 30, 33-34 (1992). As far as the sovereign immunity of the United States is concerned, "waiver of sovereign immunity is accomplished not by a 'ritualistic formula'; rather intent to waive immunity and the scope of such a waiver can only be ascertained by reference to underlying congressional policy." *Franchise Tax Bd. of Cal. v. U.S. Postal Service*, 467 U.S. 512, 521 (1984) (citation omitted).

"[T]he doctrine of sovereign immunity, for States as well as for the Federal Government, was part of the understood background against which the Constitution was adopted, and which its jurisdictional provisions did not mean to sweep away." *Union Gas*, 491 U.S. at 31-32 (Scalia, J., dissenting). Given this parity, there is no basis for treating the States' sovereign immunity any less respectfully than that of

their federal co-sovereign. The United States cannot impliedly waive its sovereign immunity. The same rule should apply to the States. The Court should eliminate all doubt on this important issue of federalism by expressly overruling *Parden*.

3. *Numerous Other Factors Favor Overruling* Parden

In *Seminole Tribe* the Court analyzed numerous factors in the course of concluding that *Union Gas* ought to be overruled. *See Seminole Tribe*, 517 U.S. at 63-66. An examination of these factors in this case reinforces the conclusion that *Parden* should likewise be overruled.

Not only was *Parden* a 5-4 decision, but it is a true outlier. "[T]he Court's recent cases have disfavored constructive waivers of the Eleventh Amendment and have required the State's consent to suit to be unequivocal." *Schacht*, 118 S.Ct. at 2057 (Kennedy, J., concurring). Indeed, since *Parden* the Court has never subsequently found "implied consent" to suit in federal court; all post-*Parden* cases in which a State was alleged to have impliedly consented to suit have narrowed or distinguished *Parden*. *See Employees of the Dept. of Public Health & Welfare v. Dept. of Health & Welfare*, 411 U.S. 279, 285 (1973); *Edelman*, 415 U.S. at 672-74; *Florida Dept. of Health*, 450 U.S. at 150; *Atascadero*, 473 U.S. at 238-39.[5]

Because *Parden* is a constitutional ruling, it is a more appropriate candidate for overruling than a

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[5] In *Welch*, of course, the Court expressly held that "to the extent that *Parden* . . . is inconsistent with the requirement that an abrogation of Eleventh Amendment immunity by Congress must be expressed in unmistakably clear language, it is overruled." 483 U.S. at 478.

statutory decision, because "correction through legislative action is practically impossible." *Edelman*, 415 U.S. at 671 n.14 (quoting *Burnet v. Coronado Oil & Gas Co.*, 285 U.S. 393, 407 (1932) (Brandeis, J., dissenting)); *Payne v. Tennessee*, 501 U.S. 808, 828 (1991). Moreover, as Justice Brennan, the author of the *Parden* opinion, himself later acknowledged, the *Parden* holding is "perhaps not unambiguously phrased." *Employees*, 411 U.S. at 301 (Brennan, J., dissenting). This ambiguity caused considerable confusion in the lower courts in the years immediately following *Parden*.[6] The inability of the lower courts to discern a workable standard for implied waiver in the *Parden* opinion continues up to the present day.[7]

Last and most important, the evolution of the Court's Eleventh Amendment jurisprudence since *Parden* conclusively demonstrates that *Parden* is grounded on a one-sided view of the federal-state balance that has been rejected by this Court. *See* 377

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[6] According to one commentator reviewing the first post-*Parden* decade,

> It quickly became evident that in announcing its new implied waiver doctrine the *Parden* Court had failed to provide adequate standards to guide the lower courts in subsequent cases. The central problem has been the ambiguity inherent in the Court's approach.

Rick Claybrook, Comment, *Implied Waiver of a State's Eleventh Amendment Immunity*, 1974 Duke L.J. 925, 932. *See also id.* at 938 (collecting cases).

[7] *Compare Digiore v. Illinois*, 962 F.Supp. 1064, 1074-76 (N.D. Ill. 1997) (State's continued provision of police services following application of FLSA to States is not implied consent to suit) *with Carey v. White*, 407 F.Supp. 121, 124-25 (D. Del. 1976) (State's continued operation of psychiatric hospitals following application of FLSA to States constitutes implied consent to suit).

U.S. at 196. In the view of the *Parden* majority, "when a State leaves the sphere that is exclusively its own and enters activities subject to congressional regulation, it subjects itself to that regulation as fully as if it were a private person or corporation." *Id.* The *Parden* Court further reasoned that where, as in the FELA, "Congress by the terms and purposes of its enactment has given no indication that it desires to be . . . hindered in the exercise of its constitutional power, we see nothing in the Constitution to obstruct its will." *Id.* at 198.

The first of these premises—that the States are no different than any other subject of federal regulation—was rejected by the Court nine years later in *Employees*: "Recalcitrant private employers may be whipped into line. . . . But we are reluctant to believe that Congress in pursuit of a harmonious federalism desired to treat the States so harshly." 411 U.S. at 286. *See also Welch*, 483 U.S. at 475 ("the Eleventh Amendment marks a constitutional distinction between the States and other employers of seamen"). The second—that the scope of Congress' regulatory authority is subject only to those limits imposed by Congress itself—has repeatedly been refuted by the Court. *See, e.g., City of Boerne v. Flores*, 521 U.S. 507 (1997); *United States v. Lopez*, 514 U.S. 549 (1995); *New York v. United States*, 505 U.S. 144 (1992).

In short, for the same reasons that *Seminole Tribe* held that "none of the policies underlying *stare decisis* require[d] [the Court's] continuing adherence" to the holding in *Union Gas*, 517 U.S. at 66, the Court should expressly overrule *Parden*:

> The decision has, since its issuance, been of questionable precedential value. . . . The case

> involved the interpretation of the Constitution, . . . [and] both the result . . . and the . . . rationale depart from our established understanding of the Eleventh Amendment and undermine the accepted function of Article III.

Id. *Amici* respectfully submit that in this case, as in *Seminole Tribe*, the Court should "feel bound to conclude that [*Parden*] was wrongly decided and that it should be . . . overruled." *See id.*

B. If *Parden*'s Implied Consent Holding Is Still Good Law, A State Does Not Impliedly Waive Its Eleventh Amendment Immunity By Continuing To Engage In An Activity After Congress Renders States Subject To Suit

Even if the Court concludes that *Parden*'s implied consent holding is still good law, Florida Prepaid has not impliedly waived the State's Eleventh Amendment immunity. *Amici* agree with Florida Prepaid and the court of appeals that "Florida Prepaid is engaged in an important governmental function; therefore, the *Parden* doctrine of waiver does not apply to the present case." Pet. App. 22a; Respondent's Br. 35-41. Therefore, neither Florida nor any other State has impliedly consented to suit in federal court by operating a prepaid tuition program.

Florida Prepaid should prevail even if the Court does not reach this issue, however. *Parden* itself makes clear that a State does not impliedly consent to suit when it continues to engage in an activity after Congress has clearly expressed an intent to subject States to federal court suit. In this situation, the State's initial foray into this area obviously cannot be deemed a waiver of immunity because at the time the State commenced the subject activity, Congress had not yet conditioned the State's participation

on its amenability to federal court suit. Under these circumstances, it is unfair and unreasonable to suggest that a State's failure thereafter to disengage from the activity constitutes a waiver of the State's Eleventh Amendment immunity.

In this case, the Florida Prepaid Postsecondary Education Expense Board was created by the Florida legislature in 1987 and began its prepaid tuition programs in 1988. Congress did not subject States to suit under the Lanham Act until 1992. Consequently, Florida Prepaid's failure to terminate its programs following Congress' election to subject States to suit under the Lanham Act cannot be deemed an "implied consent" by the State to federal court suit.

As the popularity of Florida Prepaid's programs indicates, *see* discussion *supra* at 7, States are simply not at liberty to abandon important and popular state programs merely because Congress elects, at a particular point in time, to condition state participation in a field upon the State's implied waiver of its Eleventh Amendment immunity. Such a view stretches the notion of "consent" beyond any reasonable limits. *See Johnson*, 304 U.S. at 464 ("A waiver is ordinarily an intentional relinquishment or abandonment of a known right or privilege.").

Parden itself articulates a legal standard that declines to find an "implied consent" to suit in a State's failure to terminate a program. The federal statute at issue in *Parden*, the FELA, was enacted by Congress in 1908. *See* 45 U.S.C. §§ 51-60. Two decades later the State of Alabama began to operate the Terminal Railway. *Parden*, 377 U.S. at 185. This chronology was central to *Parden*'s holding that the State had impliedly consented to suit: "Our conclu-

sion is simply that Alabama, when it began operation of an interstate railroad approximately 20 years after enactment of the FELA, necessarily consented to such suit as was authorized by that Act." *Id.* at 192.

Justice Marshall subsequently homed in on this feature of the *Parden* case to explain why he thought "the concept of implied consent or waiver relied upon in *Parden* approaches, on the facts of that case, the outer limit of the sort of voluntary choice which we generally associate with the concept of constitutional waiver." *Employees*, 411 U.S. at 296 (Marshall, J., concurring). He noted that in *Employees* the State of Missouri had been "fully engaged in the operation of the affected hospitals and schools at the time of the 1966 amendments" to the FLSA that extended its coverage to certain state facilities. *Id.*

> To suggest that the State had the choice of either ceasing operation of these vital public services or 'consenting' to federal suit suffices, I believe, to demonstrate that the State had no true choice at all and thereby that the State did not voluntarily consent to the exercise of federal jurisdiction in this case. In *Parden*, Alabama entered the interstate railroad business with at least legal notice of an operator's responsibilities and liability under the FELA to suit in federal court, and it could have chosen not to enter at all if it considered that liability too onerous or offensive.

Id. (citation omitted). "It obviously is a far different thing," he wrote, "to say that a State must give up established facilities, services, and programs or else consent to federal suit." *Id. See Close v. New York*, 125 F.3d 31, 40 (2d Cir. 1997) ("given that New York had employees before the enactment of the

FLSA and before it was made applicable to the States, its continued status as an employer cannot realistically be construed as a waiver of immunity") (footnote omitted); *Digiore*, 962 F.Supp. at 1075 ("[e]mployment is something 'in which all states were involved in long before the FLSA was enacted' ") (quoting *Close v. New York*, 1996 U.S. Dist. LEXIS 12330, at *4 (N.D.N.Y. 1996), *aff'd*, 125 F.3d at 40-41).

The United States argues that "a State may impliedly waive its Eleventh Amendment immunity by voluntarily engaging in conduct that Congress has clearly provided will subject the State to suit in federal court." U.S. Br. 14. Thus, it contends, "Florida Prepaid's sale and advertisement of investment products is properly regarded as an implied waiver of its immunity from suit in federal court." *Id.* at 21. In the view of the United States, it is irrelevant that the Florida legislature created the state agency in question five years before Congress enacted the TRCA and that the agency began offering prepaid tuition programs four years before the federal enactment.

As demonstrated by Justice Marshall's opinion in *Employees*, the United States' position is based on a very unrealistic notion of "consent." Justice Marshall emphasized just how far-fetched it is to say that "a State must give up established facilities, services, and programs or else consent to federal suit," 411 U.S. at 296 (Marshall, J., concurring), simply because Congress has subsequently elected to subject an area of state activity to federal regulation. As noted above, *see* p. 18 *supra*, the United States is itself not subject to any such notion of "implied consent" to suit and therefore need never negotiate this Hobson's choice.

The United States seeks to accommodate these concerns by arguing that "the State's waiver can be regarded as truly voluntary only if the conduct in question involves activities that the State can realistically choose to abandon," U.S. Br. 24, and that "[a] State does not voluntarily waive its Eleventh Amendment immunity by engaging in activities that it cannot realistically choose to abandon, such as the operation of a police force." *Id.* at 26.

This theory is unworkable and would improperly inject the federal courts into the determination of policy questions that are the province of the States' political branches. *Cf. Helvering v. Gerhardt*, 304 U.S. 405, 427 (1938) (Black, J., concurring) ("The genius of our government provides that, within the sphere of constitutional action, the people—acting not through the courts but through their elected legislative representatives—have the power to determine as conditions demand, what services and functions the public welfare requires."). As noted above, in the real world it will rarely if ever be possible for a State to "abandon" any program that is popular with the citizenry and on which citizens have come to depend. Certainly it is not a realistic suggestion in this case, in which the number of participants in Florida Prepaid's tuition programs had reached 375,546 as of 1996. *State College Savings Plans* at 11. Nor is it realistic to expect the federal courts to be able to identify those programs that a State can abandon.

In keeping with its theory, the United States argues that Florida Prepaid has impliedly waived the State's Eleventh Amendment immunity because, "[l]ike the railroad in *Parden*, the Board operates 'in the area where private persons and corporations normally ran

the enterprise.' " U.S. Br. 27 (quoting *Employees*, 411 U.S. at 284). Not only is this assertion incorrect factually, it demonstrates the unworkability of the United States' proposed legal standard.

Contrary to the statement of the United States, the Michigan legislature enacted prepaid tuition legislation in 1986.[8] *See Michigan v. United States*, 40 F.3d at 818. The Florida legislature enacted that State's legislation in 1987. And today—just twelve years after the establishment of the Michigan program, 22 States have prepaid tuition programs. *See* Conklin, *Federal Tuition Tax Credits* at 26-27; *see also* Appendix.

As a legal matter, *amici* question the premise of the United States that courts can be expected to identify—as a means of delineating the scope of the States' Eleventh Amendment immunity—those areas " 'where private persons and corporations normally ran the enterprise.' " U.S. Br. 27 (quoting *Employees*, 411 U.S. 284). This concern is supported by a pertinent example given by the Court in *Employees*, the very case cited by the United States to support its implied waiver theory.

In order to distinguish the facts of *Employees* from *Parden* (in which latter case "private persons and corporations normally ran the enterprise"), Justice Douglas reviewed the history of mental health care. *See Employees*, 411 U.S. at 284. Justice Douglas explained that whereas " '[b]efore 1810 " 'only a few

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[8] As College Savings Bank did not begin to sell CollegeSure CDs until 1987, Pet. Br. 6, it appears that Michigan began its prepaid tuition program contemporanously with, if not before, College Savings Bank.

eastern-seaboard states had incorporated private institutions to care for the mentally ill, and Virginia alone had established a public asylum' . . . after that the public sector took over." *Id.* (quoting D. Rothman, *The Discovery of the Asylum* 130 (1971)).[9] The emergence of States as the principal providers of institutional care for the mentally ill, after an initial period in which they scarcely did so at all, illustrates the profound difficulty of stating with assurance that a state agency is operating "in [an] area where private persons and corporations normally ran the enterprise." U.S. Br. 27.

Today, 47 States have either adopted or are seriously considering the adoption of a prepaid tuition or college savings program. *See* Conklin, *Federal Tuition Tax Credits* at 26-27. It is apparent that these state programs are becoming as integral to the States' provision of higher education as the construction of dormitories or the offering of classroom instruction itself.

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[9] A footnote in the Court's *Employees* opinion elaborates on this history in a way that provides a striking analogy to the emergence of state tuition assistance programs. *See* 411 U.S. at 284 n.2. The Court uses the Rothman study to demonstrate that while initially States did not provide care for the mentally ill, by the middle decades of the nineteenth century, "in a dramatic transformation, state after state constructed asylums . . . . By 1850, almost every northeastern and midwestern legislature supported an asylum; by 1860, twenty-eight of the thirty-three states had public institutions for the insane." *Id.* (quoting Rothman at 130).

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

RICHARD RUDA *
Chief Counsel
JAMES I. CROWLEY
STATE AND LOCAL LEGAL CENTER
444 North Capitol Street, N.W.
Suite 345
Washington, D.C. 20001
(202) 434-4850

* Counsel of Record for the *Amici Curiae*

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APPENDIX

APPENDIX

SELECTED STATE STATUTES ESTABLISHING PREPAID TUITION PROGRAMS

Alaska Stat. § 14.40.803(a)

The Alaska advance college tuition payment fund is established as a nonlapsing fund of the University of Alaska. The fund is established for the purpose of enhancing the ability of the university to provide (1) higher education for the people of the state; (2) wide and affordable access to higher education for residents and their children; (3) an incentive for residents to achieve higher academic standards in grades 7—12; and (4) an incentive for residents to continue and complete secondary and post secondary education. The fund may be divided into separate accounts for accounting purposes.

Ark. Code Ann. § 6-62-902

In order to help make higher education affordable and accessible to all citizens of Arkansas, to maintain state institutions of higher education by helping to provide a stable financial base to these institutions, to provide the citizens of Arkansas with financing assistance for higher education and protection against rising tuition costs, to encourage saving to enhance the ability of citizens of Arkansas to obtain financial access to institutions of higher education, to encourage elementary and secondary students in this state to achieve academic excellence, and to promote a well-educated and financially secure population to the ultimate benefit of all citizens of the State of Arkansas, there is hereby created the Arkansas College Savings Program. The program shall consist of the sale of tuition credits and supplemental tuition credits.

110 Ill. Comp. Stat. 979/5

The General Assembly finds and declares that the general welfare and security of the State are enhanced by access to higher education for all residents of the State who desire that education and who demonstrate the qualifications necessary to pursue that education. Furthermore, it is desirable that residents of the State who seek to pursue higher education be able to choose attendance at the higher education institution that offers programs and services most suitable to their needs. Accordingly, endeavors that serve the higher education needs of the people of the State represent an essential function of State government.

During the past decade, students have been paying more and borrowing more to finance the increasing cost of higher education at Illinois colleges and universities as well as at similar institutions nationwide. Federal and state governments' capacity to fund college scholarships and grants cannot fully meet the current and future demand for higher education nor is it reasonable to expect that paying for college is solely a governmental responsibility. It is—and has always been—a shared responsibility among the student, the family, State government, and the federal government. Consequently, the intent of this Act is to both encourage and better enable Illinois families to help themselves finance the cost of higher education, specifically through a program that provides Illinois families with a method of State tax-free and federally tax-deferred savings for college tuition.

Md. Code Ann., Educ. § 18-902

It is the intent of the General Assembly to enhance the accessibility and affordability of higher education

for all citizens of the State by establishing a method to provide for the prepayment of tuition at institutions of higher education in the State.

Mich. Stat. Ann. § 15.2097 (422), § 2

The legislature hereby finds and declares the following:

(a) It is an essential function of state government to forever encourage schools and the means of education, as provided in section 1 of article VIII of the state constitution of 1963.

(b) It is a responsibility of state government to maintain state institutions of higher education as provided by section 4 of article VIII of the state constitution of 1963.

(c) It is an essential function of state government to encourage attendance at state institutions of higher education.

(d) Tuition costs at public institutions of higher education are difficult for many to afford and are difficult to predict in order to enable individuals and families to plan.

(e) It is in the best interest of the people of this state to foster public higher education in order to provide well-educated citizens.

(f) It is in the best interest of the people of this state to encourage state residents desiring a public higher education to enroll in state public institutions of higher learning.

(g) It is in the best interest of the people of this state to enhance and foster the ability of Michigan residents to choose an independent, nonprofit higher

education in order to provide well educated citizens and to encourage state residents desiring an independent higher education to enroll in an independent degree-granting college or university located in this state.

(h) Students in elementary and secondary schools tend to achieve to a higher standard of performance when the payment of tuition for their higher education is secured.

(i) Providing assistance to assure the higher education of the citizens of this state is necessary and desirable for the public health, safety, and welfare.

Miss. Code Ann. § 37-155-3

The Legislature hereby finds and declares as follows:

(a) Tuition and required fees at institutions of higher education are difficult for many to afford and difficult to predict. As a result, the ability of individuals and families to plan for future educational expenses has been adversely affected.

(b) It is in the best interest of the citizens of this state to foster higher education in order to provide well-educated citizens.

(c) It is in the best interest of the citizens of this state to encourage state residents to enroll in institutions of higher education.

(d) Providing a mechanism to help assure the higher education of the citizens of this state is necessary and desirable for the public health, safety and welfare.

(e) The purposes of this act are to:

(i) Provide wide and affordable access to the public institutions of higher education for the residents of this state.

(ii) Encourage attendance at institutions of higher education and help individuals plan for educational expenses.

(iii) Provide a program for the advance purchase of tuition and required fees as both a means and an incentive for the citizens of this state to provide for future higher education expenses.

(iv) Provide a program through which many of the costs associated with post-secondary attendance may be paid in advance and fixed at a guaranteed level for the duration of the undergraduate enrollment.

(v) Provide for the creation of a trust fund, as an agency and instrumentality of the State of Mississippi, to assist qualified students in financing a portion of the cost of attending institutions of higher education in the State of Mississippi.

(vi) Encourage timely financial planning for higher education by the creation of prepaid tuition contracts.

Ohio Rev. Code Ann. § 3334.02

(A) In order to help make higher education affordable and accessible to all citizens of Ohio, to maintain state institutions of higher education by helping to provide a stable financial base to these

institutions, to provide the citizens of Ohio with financing assistance for higher education and protection against rising tuition costs, to encourage saving to enhance the ability of citizens of Ohio to obtain financial access to institutions of higher education, to encourage elementary and secondary students in this state to achieve academic excellence, and to promote a well-educated and financially secure population to the ultimate benefit of all citizens of the state of Ohio, there is hereby created the Ohio college savings program. The program shall consist of the issuance of college savings bonds and the sale of tuition credits and, if offered, supplemental credits.

(B) The provisions of Chapter 1707. of the Revised Code shall not apply to tuition credits or any agreement or transaction related thereto.

24 Pa. Stat. § 6901.301

The General Assembly finds and declares as follows:

(1) Tuition at institutions of higher education is difficult for many to afford and difficult to predict. As a result, the ability of individuals and families to plan for future educational expenses has been adversely affected.

(2) It is in the best interest of the citizens of this Commonwealth to foster higher education in order to provide well-educated citizens.

(3) It is in the best interest of the citizens of this Commonwealth to encourage State residents to enroll in institutions of higher education.

(4) Providing a mechanism to help assure the higher education of the citizens of this Common-

wealth is necessary and desirable for the public health, safety and welfare.

(5) The purposes of this chapter are to:

(i) Provide wide and affordable access to institutions of higher education, both public and private, for the residents of this Commonwealth.

(ii) Encourage attendance at institutions of higher education, both public and private, and help individuals plan for educational expenses.

(iii) Provide a program for the advance purchase of tuition as both a means and an incentive for the citizens of this Commonwealth to provide for future higher education expenses.

S.C. Code Ann. § 59-4-10

This chapter may be cited as the "South Carolina Tuition Prepayment Program Act". The South Carolina Tuition Prepayment Program is established to assist the citizens of South Carolina with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities.

Tenn. Code Ann. § 49-7-803

Article XI, § 12, of the Constitution of Tennessee manifests the intention of the citizens of this state that the advancement and improvement of higher education in this state is an essential governmental function and purpose of this state. Pursuant thereto, the general assembly hereby finds that the creation of

a trust program, as an agency and instrumentality of the state, to assist students or their families in financing a portion of the costs of attending colleges and universities will increase the number of students who will seek to attend a college or university, and will, therefore, advance and improve higher education in this state. It is, therefore, the legislative intent of this part to establish an educational trust fund as an agency and instrumentality of the state to assist students to pay in advance the tuition cost of attending colleges and universities, and thereby to encourage such students to attend a college or university. In establishing the trust program, it is further the intent of the general assembly to encourage timely financial planning for higher education by the creation of tuition contracts, and to provide assistance and incentives for the purchase of tuition contracts for the benefit of the children of the people of this state. It is the legislative intent that the tuition program be funded from fees assessed in accordance with § 49-7-805(10).

Tex. Higher Ed. Code Ann. § 54.6001

An educated population being necessary to the social development and economic health of this state, the legislature finds and declares it to be an urgent public necessity to assist young Texans in obtaining a higher education. Because the state's population is rapidly growing and is diverse, the state is required to use all of the higher education facilities and resources within the state, both public and private, to provide a wide variety of educational environments and instructional options and to preserve the partnership between the state and private or independent institutions of higher education. Therefore, the pre-

paid higher education tuition program is established to help Texas students attend the institution that best meets their individual needs.

Va. Code Ann. § 23-38.76.A

To enhance the accessibility and affordability of higher education for all citizens of the Commonwealth, there is hereby established as an independent agency of the Commonwealth, the Virginia Higher Education Tuition Trust Fund (the "Fund"). Moneys of the Fund shall be held in the state treasury in a special nonreverting fund, which shall consist of payments received pursuant to prepaid tuition contracts made pursuant to this chapter, bequests, endowments or grants from the United States government, its agencies and instrumentalities, and any other available sources of funds, public or private. Any moneys remaining in the Fund at the end of a biennium shall not revert to the general fund but shall remain in the Fund. Interest and income earned from the investment of such funds shall remain in the Fund and be credited to it.

Wash. Rev. Code § 28B.95.010

The Washington advanced college tuition payment program is established to help make higher education affordable and accessible to all citizens of the state of Washington by offering a savings incentive that will protect purchasers and beneficiaries against rising tuition costs. The program is designed to encourage savings and enhance the ability of Washington citizens to obtain financial access to institutions of higher education. In addition, the program encourages elementary and secondary school students to do well in school as a means of preparing for and aspiring to

higher education attendance. This program is intended to promote a well-educated and financially secure population to the ultimate benefit of all citizens of the state of Washington.

W. Va. Code § 18-30-2

The Legislature hereby finds and determines that the advancement and improvement of higher education in the state of West Virginia is a proper governmental function and purpose of the state. The Legislature also finds that the creation of a prepaid tuition trust fund, to assist qualified students and their families in financing a portion of the costs of attending an accredited higher education institution or program in the state of West Virginia will increase the number of qualified students who will seek to attend the accredited higher education institutions and programs, which will be of benefit to students, families and to the accredited higher education institutions and programs, and will therefore advance and improve higher education in the state of West Virginia. It is, therefore, the legislative intent of this article to establish a prepaid tuition trust fund to assist qualified students to pay in advance the costs of attending accredited higher education institutions and programs and thereby to encourage the qualified students to attend accredited higher education institutions and programs in the state of West Virginia. The Legislature finds and declares that prepaid tuition trust fund contracts neither contain nor obligate any general revenue funds.

Supreme Court, U.S.
FILED
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No. 98-149

IN THE SUPREME COURT OF THE UNITED STATES

October Term, 1998

COLLEGE SAVINGS BANK,

Petitioner,

v.

FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD, ET AL.,

Respondents.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

BRIEF OF *AMICI CURIAE* STATES OF OHIO, ALABAMA, ALASKA, ARKANSAS, CALIFORNIA, COLORADO, DELAWARE, HAWAII, ILLINOIS, MARYLAND, MICHIGAN, MISSISSIPPI, MISSOURI, NEBRASKA, NEVADA, NEW HAMPSHIRE, NEW MEXICO, NEW YORK, OKLAHOMA, OREGON, RHODE ISLAND, SOUTH DAKOTA, TENNESSEE, UTAH, WASHINGTON, WEST VIRGINIA, WYOMING AND THE COMMONWEALTHS OF PENNSYLVANIA AND VIRGINIA IN SUPPORT OF RESPONDENTS

BETTY D. MONTGOMERY
Attorney General of Ohio
EDWARD B. FOLEY
State Solicitor
Counsel of Record
ELISE W. PORTER
Assistant Solicitor
30 East Broad Street, 17th Floor
Columbus, Ohio 43215-3428
(614) 466-8980
Counsel for *Amici* States

BILL PRYOR
Attorney General
State of Alabama

BRUCE M. BOTELHO
Attorney General
State of Alaska

MARK PRYOR
Attorney General
State of Arkansas

BILL LOCKYER
Attorney General
State of California

KEN SALAZAR
Attorney General
State of Colorado

M. JANE BRADY
Attorney General
State of Delaware

MARGERY S. BRONSTER
Attorney General
State of Hawaii

JAMES E. RYAN
Attorney General
State of Illinois

J. JOSEPH CURRAN, JR.
Attorney General
State of Maryland

JENNIFER GRANHOLM
Attorney General
State of Michigan

MIKE MOORE
Attorney General
State of Mississippi

JEREMIAH W. (JAY) NIXON
Attorney General
State of Missouri

DON STENBERG
Attorney General
State of Nebraska

FRANKIE SUE DEL PAPA
Attorney General
State of Nevada

PHILIP T. McLAUGHLIN
Attorney General
State of New Hampshire

PATRICIA A. MADRID
Attorney General
State of New Mexico

ELIOT SPITZER
Attorney General
State of New York

W.A. DREW EDMONDSON
Attorney General
State of Oklahoma

HARDY MYERS
Attorney General
State of Oregon

D. MICHAEL FISHER
Attorney General
Commonwealth of Pennsylvania

SHELDON WHITEHOUSE
Attorney General
State of Rhode Island

MARK BARNETT
Attorney General
State of South Dakota

PAUL G. SUMMERS
Attorney General
State of Tennessee

JAN GRAHAM
Attorney General
State of Utah

MARK L. EARLEY
Attorney General
Commonwealth of Virginia

CHRISTINE O. GREGOIRE
Attorney General
State of Washington

DARRELL V. McGRAW, JR.
Attorney General
State of West Virginia

GAY WOODHOUSE
Attorney General
State of Wyoming

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INTRODUCTION AND INTEREST OF THE *AMICI*

Amici State of Ohio and 28 other States write in support of Respondent Florida Prepaid Postsecondary Education Expense Board ("Florida Prepaid"). *Amici* States urge the Court to hold that Congress lacks authority, by means of either the Commerce Clause or the Fourteenth Amendment, to abrogate a State's sovereign immunity for a claim of false advertising under the Lanham Act. In addition, the States urge that the constructive waiver doctrine first articulated in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184 (1964), can no longer be sustained after this Court's holding in *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), and consequently should be overruled.

The States have an obvious interest in protecting their Eleventh Amendment immunity from suit in federal court. The *Amici* States therefore submit this brief for the Court's consideration.

SUMMARY OF ARGUMENT

In *Seminole Tribe*, this Court held that Congress lacks the power under Article I to abrogate a State's Eleventh Amendment immunity. In an effort to avoid the effect of this holding, College Savings Bank ("CSB"), Petitioner here, argues, first, that Congress has abrogated the immunity under section five of the Fourteenth Amendment, and, second, that Florida has waived its sovereign immunity pursuant to the *Parden* doctrine. Both arguments are incorrect.

1.a. A claim for false advertising (the only claim made here[1]) is not a "property" right that is protected by the Due

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[1]This case, No. 98-149, involves only a false advertising claim under the Lanham Act. A related case, *Florida Prepaid Postsecondary Expense*

Process Clause of the Fourteenth Amendment. As the United States acknowledges, a false advertising claim does not have the quintessential hallmark of property, the right to exclude others. *See* U.S. Br. pp. 30-33.

b. Even if the claim could somehow be construed as a property right, Florida (as well as most other States) provides both "takings" and tort remedies in state court. (*See* Appendix B to Brief for *Amici* States in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, No. 98-531). Therefore, Florida has not violated due process, and Congress cannot "enforce" the Due Process Clause under section five of the Fourteenth Amendment.

2.a. Nor has Florida waived its sovereign immunity. The *Parden* doctrine has lost its constitutional moorings after the Court's holding in *Seminole Tribe*. In *Parden*, the power to constructively waive the States' Eleventh Amendment immunity was based on Congress' power to regulate interstate commerce, as well as the assumption that the States surrendered immunity by granting Congress the interstate commerce power when ratifying the plan of the Constitution. This assumption, however, was found to be erroneous in *Seminole Tribe*, which held that the powers granted to Congress in the Commerce Clause of Article I, §8 were never intended to deprive States of immunity from suit in federal courts. In other words, when exercising Commerce Clause power, Congress must accept the existing fact of state sovereign immunity. Given the holding and reasoning of *Seminole Tribe*, Congress cannot attempt to use its Commerce Clause power to negate state sovereign immunity. It follows, therefore, that the idea of constructive waiver

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Board v. College Savings Bank, No 98-531, to be argued the same day as No 98-149, involves a patent infringement claim arising from the same dispute between Florida and CSB.

articulated in *Parden* is no longer tenable, and hence the doctrine must be abandoned.

b. Even if *Parden* retains some viability after *Seminole Tribe*, a State does not constructively waive its immunity by adopting a legislative program, particularly in a field of regulatory authority of traditional state concern, such as education. States necessarily have the legislative discretion to determine, without risk to their Eleventh Amendment immunity, what public policies would best serve the citizens of the State. In this case, the State of Florida has adopted a legislative program for making higher education financially affordable for its citizens. As a result, the United States and CSB argue that the State voluntarily chose to waive its Eleventh Amendment immunity with respect to false advertising claims under the federal Lanham Act that might arise against the State in connection with its financial aid program.

This argument, however, turns upside-down the crucial principles of federalism that underlie the Eleventh Amendment. Sound principles of federalism do not permit that, simply by choosing an innovative method to fulfill its core responsibilities in the field of education, a State has waived its sovereign immunity under the Eleventh Amendment. Instead, a State, as a "laborator[y] for experimentation," *United States v. Lopez*, 514 U.S. 549, 581 (Kennedy, J., concurring), must remain free to adopt whatever policies and programs it thinks best for its citizens, without fear that adopting such legislation is a constructive waiver of sovereign immunity.

ARGUMENT

I. CONGRESS HAS NO POWER UNDER THE FOURTEENTH AMENDMENT TO SUBJECT STATES TO FALSE ADVERTISING CLAIMS IN FEDERAL COURT.

A. A Claim For Damages For Unfair Trade Practices Is Not A Property Right Protected Under The Due Process Clause Of The Fourteenth Amendment.

The only provision of the Lanham Act that is alleged to have been violated in this case is the prohibition on false representations about one's own product. *See* Petitioner's Brief, p. 2. No violation of trademark or other provision of the Act is alleged here. Although CSB alleges some pecuniary loss from the alleged false advertising, its claims simply do not rise to a "property" right that might be protected under the Fourteenth Amendment. The United States, otherwise supporting CSB, acknowledges that there is no "property" interest here, and thus no violation of due process. U.S. Br., p. 30-33. Since the United States is entirely persuasive on this point, there is no need to repeat its cogent argument here.

CSB, however, argues that the tort of unfair competition protects property rights in its business. Pet. at 16; Br. at 13-21. Although in a general sense it may be true that the protection of business interests is an intent of the law, CSB's claims are not thereby raised to a constitutional level. Virtually every tort protects some "property" or "liberty" interest. It does not follow, however, that there is a constitutional right to a tort claim for every possible injury to

a property right. For example, a person still owns a house as property, even if her State does not recognize a nuisance claim when a neighbor makes too much noise. The house owner does not have a *property* right that a State's law uphold a particular kind of tort claim. Likewise, a business owner does not have a *property* right to the tort of unfair competition.

This point is true even when a State is the alleged tortfeasor. Because there is no property right to legal recognition of the tort of unfair competition, a State does not deprive the business owner of property by allegedly committing that tort. Thus, CSB's claim that there has been a deprivation of "property" for purposes of the Fourteenth Amendment rests on an analytic error.

B. Even If A Property Right Were To Exist, The States Provide Due Process In State Courts, And Therefore No Violation Of Due Process Exists.

Even if a claim for unfair competition could be construed as a property right for purposes of due process, Congress could not "enforce" the right against the States unless there is a violation of due process. Because Florida, as well as most other States, provide due process for deprivations of property, there is no violation of due process and thus no need for Congress to "enforce" the Due Process Clause.[2]

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[2]The argument set forth in this section of this brief parallels a similar argument made in the States' *amicus* brief in No. 98-531. In making this argument, the States do not mean to suggest that a State's ability to assert immunity in federal court is necessarily contingent on a comparable remedy in state court. It may be that States have the sovereign right to remain immune from suit in both federal and state

It is well established that a State has not violated due process just because there is a pending allegation that the State has committed a tort of some kind. *See, e.g., Parratt v. Taylor*, 451 U.S. 527, 540 (1981), *overruled in part on other grounds by Daniels v. Williams*, 474 U.S. 327 (1986)(negligence does not qualify as a deprivation for purposes of Due Process Clause). *See also Hudson v. Palmer*, 468 U.S. 517 (1984). Instead, a due process violation occurs, if at all, only if a State fails to afford a procedure for presenting the tort claim. The State in *Parratt* did provide a tort remedy against the State, and the Court held that because this remedy "could have fully compensated the respondent for the property loss he suffered," it was "sufficient to satisfy the requirements of due process." 451 U.S. at 543-44. *See also Williamson County Regional Planning Comm. v. Hamilton Bank of Johnson City*, 473 U.S. 172, 195 (1985) (takings claim was premature "because the Constitution does not require pretaking compensation, and is instead satisfied by a reasonable and adequate provision for obtaining compensation after the taking").

The same point is true in this case. Petitioner CSB, a bank, claims that Respondent, a state agency charged with the responsibility of providing financial aid to college-bound children of the state's citizens, has engaged in the tort of false advertising in violation of section 43(a) of the Lanham Act, 15 U.S.C. §1125(a). While the false advertising claims remain very much in dispute, the State of Florida has made available in its own courts a process for adjudicating both tort and "takings" claims. Fla. Stat. § 768.28 (1998); Fla. Const.

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court. *See* States' *amicus* brief in *Alden v. Maine*, No. 98-436, *cert. granted*, 119 S.Ct. 443 (November 9, 1998).

Art. X, § 6(a).[3] In other words, Florida makes available the same types of procedures involved in *Parratt* that satisfied due process.

In sum, there has been no deprivation of property without due process and, therefore, no violation of the Fourteenth Amendment. Because there is no Fourteenth Amendment violation, there is nothing for Congress to remedy pursuant to its authority under section five of the Fourteenth Amendment. Under the principles espoused in *City of Boerne v. Flores*, 521 U.S. 507 (1997), Congress may not require Florida or any other State to submit to a federal court procedure for adjudicating an unfair competition claim against the State just because Congress thinks that the federal process would be preferable to the state court process already available.

II. A STATE DOES NOT CONSTRUCTIVELY WAIVE ITS ELEVENTH AMENDMENT IMMUNITY BY FINANCING HIGHER EDUCATION FOR ITS CITIZENS.

A. The *Parden* Doctrine Of Constructive Waiver Is Inconsistent With *Seminole Tribe*.

The theory of constructive waiver articulated in *Parden* is that a State waives its Eleventh Amendment immunity simply by engaging in an activity that Congress has the power to regulate under the Interstate Commerce Clause.

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[3]Indeed, most States have provisions for "takings," inverse condemnation and/or tort claims in some forum. *See* Appendix B to Brief for Amici States in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, No. 98-531.

See Parden, 377 U.S. at 190-91. This theory, however, is untenable after *Seminole Tribe*. The reason is that the *Parden* theory of constructive waiver is essentially the same as the theory of congressional power to abrogate sovereign immunity—now discredited by *Seminole Tribe*.

If a State were to constructively waive its immunity just by engaging in an activity within the scope of Congress's interstate commerce power, then Congress can negate the State's sovereign immunity simply by regulating pursuant to this power. This negation of sovereign immunity is just another term for congressional "abrogation" of sovereign immunity. There is no legal or policy reason to presume that a State engaging in an activity that Congress has the power to regulate under the Interstate Commerce Clause actually wishes to relinquish its Eleventh Amendment immunity. But if Congress, just by exercising the commerce power, can force a State to lose its immunity when the State undertakes an activity within the scope of the power, then Congress effectively has the authority to abrogate a State's Eleventh Amendment immunity whenever it regulates pursuant to the Interstate Commerce Clause.

The dissent in *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989)—a dissent that spoke for four present members of this Court—recognized this essential equivalence between the *Parden* theory of constructive waiver and the idea of congressional abrogation of sovereign immunity. "At bottom, then, to acknowledge that the Federal Government can make the waiver of state sovereign immunity a condition to the State's action in a field that Congress has authority to regulate is substantially the same as acknowledging that the Federal Government can eliminate state sovereign immunity in the exercise of its Article I powers." *Id.* at 44. As the *Union Gas* dissent also recognized, if the idea of congressional abrogation of sovereign immunity under the Commerce

Clause is constitutionally incorrect, then so too must be *Parden*'s theory of constructive waiver. "There are obvious and fatal difficulties in acknowledging [the *Parden* theory of constructive waiver] if no Commerce Clause power to abrogate sovereign immunity exists." *Id.* at 43.

Consequently, because constructive waiver under *Parden* is the same as congressional abrogation of sovereign immunity, *Parden's* theory of constructive waiver cannot survive this Court's decision in *Seminole Tribe*. As this Court well knows, *Seminole Tribe* held that Congress lacks the power to abrogate a State's Eleventh Amendment immunity just because a State has undertaken an activity that falls within the scope of Congress's power under the Commerce Clauses of Article I, §8. Thus, given the equivalence between the idea of abrogation and *Parden*'s theory of constructive waiver, it necessarily follows from this Court's decision in *Seminole Tribe* that a State does not constructively waive its Eleventh Amendment immunity simply because the State has undertaken an activity that falls within the scope of congressional power under the Interstate Commerce Clause.

It is not just the holding of *Parden* that is inconsistent with *Seminole Tribe*. Rather, it is the whole vision of federalism underlying the *Parden* decision that contradicts the correct understanding of federalism articulated in *Seminole Tribe*. *Parden* rested its theory of constructive waiver on a belief that the States already had surrendered their sovereign immunity with respect to any activity regulable by Congress pursuant to the Interstate Commerce Clause. According to *Parden*, this surrender of sovereign immunity occurred at the time of the State's ratification of the Constitution. "[B]y empowering Congress to regulate [interstate] commerce, . . . the States necessarily surrendered any portion of their sovereignty that would stand in the way of such regulation." *Parden*, 377 U.S. at 193. But, as *Seminole Tribe* correctly

observed, the States did not subject themselves to suit in federal court by ratifying Congress's power to regulate interstate commerce. "Even when the Constitution vests in Congress complete lawmaking authority over a particular area, the Eleventh Amendment prevents congressional authorization of suits by private parties against unconsenting States." 517 U.S. at 72.

Because *Parden*'s theory of constructive waiver is no longer tenable after *Seminole Tribe*, the Court in this case should take the occasion to overrule *Parden* explicitly. Doing so would not disrespect the values of *stare decisis*. Indeed, *Parden* has been overruled in part before. In *Welch v. Department of Highways & Public Transportation*, 483 U.S. 468 (1987), this Court overruled *Parden* insofar as it is inconsistent with the constitutional principle that Congress must articulate a "clear statement" of an intent to deny a State its Eleventh Amendment immunity.[4]

Several other pre-*Seminole* decisions of this Court also cast doubt on *Parden*'s theory of constructive waiver. *See Employees of the Dep't of Pub. Health & Welfare v. Department of Pub. Health & Welfare*, 411 U.S. 279 (1973) (no waiver of Eleventh Amendment immunity from suit by employees of State's nonprofit institutions); *Edelman v. Jordan*, 415 U.S. 651 (1974) (mere fact that a State participates in a program partially funded by the federal

[4]In *Hilton v. South Carolina Public Railways Commission*, 502 U.S. 197 (1991), this Court declined to overrule *Parden's* interpretation of the particular Act of Congress involved in that case. *Hilton*, however, predates *Seminole Tribe* and thus serves as no basis for sustaining *Parden's* misunderstanding of the relevant *constitutional* principles involved in construing the relationship between Article I and the Eleventh Amendment. *Seminole Tribe*, moreover, overruled *Union Gas* as necessary to vindicate the correct understanding of the Constitution and its fundamental principles of federalism.

government does not manifest consent to be sued in federal court). Thus, a review of post-*Parden* decisions reveals that case to have been an anomaly from the start. Now that the Court has come to recognize that the entire premise of *Parden* contradicts a proper understanding of Eleventh Amendment immunity, the Court should simply abandon *Parden* as an erroneous and eviscerated aberration.

B. Assuming *Arguendo Parden* Survives *Seminole Tribe*, It Cannot Apply Where, As Here, A State Adopts Policies And Programs In A Field Of Primary State Concern.

Parden, this Court will recall, involved a State's decision to operate a railroad on a "for profit" basis. 377 U.S. at 185. This case, by contrast, involves a State's decision to offer its citizens a form of financial aid for higher education, so as to increase the opportunities for their children to attend college or university. Thus, in terms of the relative balance of state and federal interests, the two cases could scarcely be more different.

In *Parden*, the operation of a "for profit" railroad could not be considered an essential state function, where the inevitable interconnectivity of railroad lines across state borders had given the federal government a strong interest in the regulation of railroads since their inception. By contrast, a vitally important function of state government is the provision of educational opportunities for its citizens, and the States always have had, and continue to have, primary authority in this field. *See Lopez*, 514 U.S. at 564 (education is a field "where States historically have been sovereign"); *id.* at 580 (Kennedy, J., concurring) ("it is well established that education is a traditional concern of the States"). *See also Brown v. Board of Education*, 347 U.S. 483, 493 (1954)

("education is perhaps the most important function of state government"). Moreover, the federal government has but a slight interest in subjecting a State to suit in federal court for false advertising claims arising from the State's publicity of its financial aid programs, for which only the State's own citizens and their children are eligible. Thus, assuming arguendo the *Parden* theory of constructive waiver were somehow to survive *Seminole Tribe*, it cannot apply here, where the State has adopted a program in an area of core state concern, and where the federal interest involved is especially tenuous.

This proposition is valid notwithstanding that Florida's financial aid program has attributes resembling practices of private-sector financial institutions. In an effort to analogize this case to *Parden*, CSB and the United States suggest that Florida's financial aid program is a for-profit enterprise. *See* U.S. Br. at 24, 27 (repeatedly characterizing the program as "commercial" and "highly profitable"); CSB Br. pp. 38-41. But this suggestion is inaccurate. Florida's program is not a "for-profit" enterprise. The money generated by contracts goes into a separate trust fund for the exclusive use of Florida Prepaid to honor the contracts for college tuition as they become due. Fla. Stat. § 240.551. Any surplus left at the end of a fiscal year is placed in a contingency fund, presumably to guard against years of unusually high demand, and as a hedge against losses due to inflation or investment. *Id.* No money ever goes to the general state treasury, but is kept in the trust fund for the exclusive use of the program.

Moreover, the *Amici* States would suggest that the correct way to understand Florida's program differs from the description offered by the United States, which writes that Florida has entered "interstate commerce" to compete commercially "in the marketplace" with private lenders. *See* U.S. Br. at 28-29. We submit, however, that Florida does not

"operat[e] in interstate commerce" in any meaningful sense when, as here, it limits its financial aid program only to Florida residents and their children. While it may be that Congress has the power to regulate in-state financing practices on a theory that they "substantialiy affect" interstate commerce, *Lopez*, 514 U.S. at 559, it is still wrong to characterize in-state financing as "operating in interstate commerce." Florida's publicity of its financial aid program for the children of in-state residents is not the kind of national advertising campaign—like those conducted by the nation's major manufacturing or retailing companies—that gives rise to the need for a federal false advertising claim under the Lanham Act.

In addition, when the United States says that Florida is in "commercial" competition with private firms and thus needs to be subjected to false advertising suits in federal court so as to prevent the State from having a "competitive advantage," U.S. Br. p. 29-30, the United States apparently misunderstands both the consequences of Eleventh Amendment immunity and the State's role in providing educational opportunities for its citizens. First, if Florida prevails in its assertion of Eleventh Amendment immunity, as it should, it will obtain no significant "competitive advantage" against private firms as a result of this immunity. The reason is simple: even if the State is immune from suit in *federal* court because of the Eleventh Amendment, a victim of any alleged false advertising by the State can bring a claim for relief in state court. *See* Part I. B and n. 3, *supra.* This state-court remedy will put any "private competitor" in substantially the same position as if relief against the State were available in federal court. Thus, contrary to the suggestion of the United States, there is no lopsided advantage for a state financial aid agency as a result of the Eleventh Amendment.

In any event, it is mistake to think that a State, *when it acts to provide educational opportunities for its citizens*, is obligated to limit itself so its educational programs have no "competitive advantage" over educational programs that might be offered in the "marketplace" by private institutions. States have long operated their own schools, colleges, and universities. These institutions in some sense "compete" for students with private schools, colleges, and universities. Nonetheless, the State's institutions have a major "competitive advantage" insofar as they receive substantial subsidies from the State, generated by the State's tax revenues. No one could suggest that there is anything inappropriate about this "competitive advantage," if one should even use the term when comparing public and private schools. Instead, the proper way to understand the field of education, given the State's obvious primary responsibility for assuring educational opportunities for its citizens, is that private entities enter the field at their own risk, knowing that public educational institutions may well have significant advantages in attracting families—advantages derived from the State's unique taxing and regulatory powers.

This point applies just as much when a State operates its own program for providing financial aid to attend a college or university as when the State operates the college or university itself. The State's own financial aid program is one of the State's chosen ways to make educational opportunities more available for the citizens of the State and their children. In adopting its own financial aid program, the State may choose to rely (to a greater or lesser extent) on its own special taxing and regulatory powers. When the State does so, private entities that wish to offer an alternative financial aid program enter the educational arena (or "marketplace," if one insists on that term) knowing well that the State necessarily has the authority to rely on its sovereign powers to enhance educational opportunities for its people.

In sum, this case involves a State engaged in one of the most important functions of a State: enhancing educational opportunities for its citizens and their children. Thus, assuming *arguendo* that the *Parden* constructive waiver doctrine retains some validity after *Seminole Tribe*—a proposition the *Amici* States vigorously dispute—it has no applicability in this case. In no event can the idea of constructive waiver apply where a State has exercised legislative discretion in a field long recognized to be a primary concern of the States—and where the basis for federal jurisdiction under the Interstate Commerce Clause is slight. Simply put, Florida did not constructively waive its Eleventh Amendment immunity by choosing to operate and publicize its financial aid program.

C. The Theory Of Constructive Waiver Proposed By The United States Contradicts Fundamental Principles Of Federalism.

The United States proposes the following test for application of the constructive waiver doctrine: "an implied waiver of Eleventh Amendment immunity may be found . . . [if] a State's decision to engage in the specified conduct may realistically be deemed a voluntary choice." U.S. Br. at 28 n. 8. We submit, first, that this proposed test is inconsistent with the reasoning of *Seminole Tribe* and the important principles of federalism that animated that decision. *Seminole Tribe* did not rule that Congress lacks the power to abrogate Eleventh Amendment immunity only when States have no choice but to enter a domain subject to federal regulation. On the contrary, in *Seminole Tribe* this Court correctly held that Congress has no power whatsoever under Article I to abrogate a State's sovereign immunity, because the States did not relinquish that immunity when they granted Congress its

Article I powers. Thus, the reasoning of *Seminole Tribe* applies just as much to the "voluntary choices" a State might make pursuant to its sovereign powers as to any involuntary acts a State might need to undertake.

The position of the United States seems to equate a State's voluntary decision to adopt a legislative program with a voluntary waiver of sovereign immunity. But no such equation would be proper. Just because a State voluntarily chooses to enact a piece of legislation that the State thinks is in the best interests of its people, it does not follow that the State necessarily has chosen to abandon its sovereign immunity with respect to any federal claim arising from the State's enactment. To so hold would be to return essentially to the idea of congressional abrogation—that Congress can strip a State of its Eleventh Amendment immunity whenever a State chooses to enact legislation that falls within the ambit of congressional authority under Article I (even if the State has no desire to abandon its Eleventh Amendment immunity by adopting the legislation in question). Yet this kind of argument is precisely what the Court rejected in *Seminole Tribe*. For this reason alone, the United States' proposed test for constructive waiver is a non-starter.

The proposed test, moreover, would seriously undermine the sovereignty of States to make discretionary policy choices pursuant to their regulatory powers. As such, the proposal is fundamentally inconsistent with general principles of federalism, principles imbedded in the Constitution and previously sustained by this Court. *See, e.g., Printz v. United States*, 117 S.Ct. 2365, 2381 (1997) ("It is an essential attribute of the States' retained sovereignty that they remain independent and autonomous within their proper sphere of authority.") *See also New York v. United States*, 505 U.S. 144, 177 (1992) ("functioning as a sovereign" requires States to have the policy discretion to make

legislative choices that fulfill "a state government's responsibility to represent and be accountable to the citizens of the State"). Accordingly, the proposal should be rejected in no uncertain terms.[5]

Furthermore, it is not at all clear that, in the words of the United States (U.S. Br. at 24), Florida could "realistically choose to abandon" the financial aid program at issue here. This program, after all, was the state legislature's policy choice for improving access to higher education, after considering the various policy options, including budget constraints and other public priorities. Surely, the United States is not suggesting that Florida could or should abandon its commitment to expanding educational opportunities for its citizens and their children.

Instead, the United States seems to say that Florida could abandon its chosen means for improving educational

---

[5]The United States cites a series of cases in an effort to support its proposed theory of constructive waiver. None of these cases, either individually or in connection with any other, support a finding of constructive waiver in this case. As an initial matter, the States would not concede that any of the cases establish waiver of any kind. All but one of these cases are lower-court decisions that the States will vigorously contest when and if these issues are before this Court. (The U.S. cites, at 14-15, a case from this Court involving a State's receipt of federal funds, *South Dakota v. Dole*, 483 U.S. 2031 (1987), but that case did not involve the Eleventh Amendment.) The one cited case from this Court involving the Eleventh Amendment obviously predates *Seminole Tribe*, and should not survive it for reasons stated in Part II.A., *supra*. *See* U.S. Br. pp. 16-17 discussing *Petty v. Tennessee-Missouri Bridge Commission*, 359 U.S. 275 (1959). Even if *Petty* survives *Seminole Tribe*, the decision to enter an interstate compact is very different from an independent state legislative act in an area traditionally understood to be within the State's province. The other cases are equally distinguishable as examples of a State knowingly and voluntarily entering into a type of "joint venture" or "contract" with the federal government, or availing itself of a federal forum.

opportunities. The United States describes Florida's program as "neither a traditional nor necessary means for facilitating the State's educational mission." U.S. Br. at 27. But the implication of this suggestion is that, for purposes of Eleventh Amendment immunity, a State is confined to exercise its sovereign policymaking powers in only certain circumscribed ways. This suggestion is untenable.

When a State acts in an area of core responsibility, like education, its sovereignty does not depend upon whether the State adopts a program that is traditional or necessary. Instead, the State has the sovereign authority to exercise its discretion to make policy in innovative or experimental ways. Good government demands as much. "In this circumstance, the theory and utility of our federalism are revealed, for the States may perform their role as laboratories for experimentation to devise various solutions where the best solution is far from clear." *United States v. Lopez*, 514 U.S. 549, 581 (1995) (citations omitted). Furthermore, the United States, as a sovereign power like the several States, would not tolerate a description of its sovereignty as limited to traditional and necessary measures. Thus, when the State of Florida chooses to adopt a program for financing access to higher education that is innovative from an historical perspective, the State is exercising its sovereign authority in the field of educational policy to the same extent as when the State chooses to operate a traditional public school or university.

Moreover, not even the operation of traditional public schools or universities can be considered a "necessary means" of securing educational opportunities for the people of a State. As the growing "charter school" movement makes plain, a State could privatize the operation of public schools. Indeed, given the modern trend toward privatization, a State could "abandon" most public functions, if the State concludes

that subsidizing or contracting with private entities is more efficient or otherwise better public policy than operating public entities itself. In terms of the proposed test for constructive waiver offered by the United States, even the operation of traditional public schools is a "voluntary choice," given the fact that State alternatively could choose to rely on subsidization (and regulation) of private schools as a means of providing for educational opportunity.

This point, however, further confirms just how inappropriate the proposed test is. To the contrary, a State's ability to assert Eleventh Amendment immunity does not turn on whether the State has exercised a "voluntary choice" in a domain, such as education, over which the State has the discretion to make a wide variety of policy choices. When a State chooses one policy alternative in favor of another, it does so based on its considered judgment that the chosen alternative is in the best interest of the people of the State. If state sovereignty means anything, it means that a State has the sovereign power to exercise this discretion to adopt innovative programs, as well as traditional ones, without risk of losing its Eleventh Amendment immunity.

This Court need not even reach the question of adopting a post-*Seminole* test for constructive waiver if, as we have argued in Point II.A., the entire theory of constructive waiver does not survive *Seminole Tribe*. But assuming, solely for sake of argument, there is a need to consider constructive waiver after *Seminole Tribe*, the result cannot be the test proposed by the United States. No sound understanding of federalism could tolerate a constructive waiver doctrine that deprived a State of its sovereign immunity just because it chose to operate a program to provide its citizens and their children with financial aid for higher education.

CONCLUSION

For the foregoing reasons, the Court should affirm the decision below.

Respectfully submitted,

BETTY D. MONTGOMERY
Ohio Attorney General
EDWARD B. FOLEY
State Solicitor
Counsel of Record
ELISE W. PORTER
Assistant Solicitor
30 East Broad Street, 17th Floor
Columbus, OH 43215
(614) 466-8980
Counsel for *Amici* States

March, 1999

(14)

No. 98-149

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

COLLEGE SAVINGS BANK,
Petitioner,

vs.

FLORIDA PREPAID POSTSECONDARY
EDUCATION EXPENSE BOARD,
Respondent.

ON WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

MOTION FOR LEAVE TO FILE *AMICUS CURIAE* BRIEF AND BRIEF FOR *AMICUS CURIAE* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION SUPPORTING AFFIRMANCE OF THE THIRD CIRCUIT'S ORDER

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
MARGARET A. BOULWARE
PRESIDENT
2100 Jefferson Davis Highway
Arlington, Virginia 22202-3694
(703) 715-0780

JOSEPH R. RE
Counsel of Record
MICHAEL K. FRIEDLAND
620 Newport Center Drive
Sixteenth Floor
Newport Beach, California 92660-8016
(949) 760-0404

Of Counsel:
DON W. MARTENS
JOSEPH N. WELCH

Attorneys for *Amicus Curiae*

Lawyers Brief Service • Appellate Brief Printers • (213) 613-1013 • (949) 720-1510

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Respondent.

MOTION FOR LEAVE TO FILE *AMICUS CURIAE* BRIEF

Pursuant to Rule 37.3(b) of the Rules of the Supreme Court of the Unites States, the American Intellectual Property Law Association ("AIPLA") hereby requests leave to file the accompanying *amicus curiae* brief. Such brief is submitted in support of affirmance of the decision of the Third Circuit Court of Appeals.

College Savings Bank and the United States have consented to the filing of such brief. Respondent Florida Prepaid Postsecondary Education Expense Board has not consented.

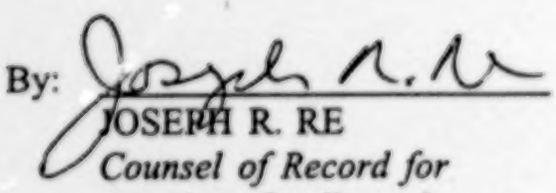
As set forth in the accompanying brief, AIPLA is a national association of approximately 10,000 members who are primarily attorneys with interests and practices in the areas of patent, copyright, trademark, trade secret, and other intellectual property law.

This case concerns a false advertising claim brought under Section 43(a) of the Lanham Act alleging that a defendant made misrepresentations regarding its own products. Because this claim is not a traditional intellectual property right, the AIPLA takes no position on whether states can be sued for such claims.

Section 43(a), however, is also one of the statutes that define trademark infringement. Because trademarks are traditional intellectual property rights, this Court should limit any affirmance of the Third Circuit's ruling to the false advertising claims before it, and not broadly rule that Congress has no power under the Fourteenth Amendment to abrogate immunity to any Section 43(a) claim.

The AIPLA is deeply concerned that trademark holders may lose their abililty to bring actions against states for trademark infringement. Accordingly, the AIPLA respectfully requests leave to file the accompanying *amicus curiae* brief.

March 20, 1999 Respectfully submitted,

By: 

JOSEPH R. RE
Counsel of Record for
American Intellectual
Property Law Association

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INTEREST OF THE AMICUS CURIAE[1]

The American Intellectual Property Law Association ("AIPLA") is a national association of approximately 10,000 members who are primarily attorneys with interests and practices in the areas of patent, copyright, trademark, trade secret, and other intellectual property law. AIPLA attorneys are employed by private law firms, corporations, universities, and governments, and represent both owners and users of intellectual property. Unlike many other areas of practice in which separate and distinct plaintiffs' and defendants' bars exist, most, if not all, intellectual property law attorneys represent both intellectual property owners and alleged infringers.

The AIPLA has no stake in the parties to this litigation or the result of this case. It is, however, deeply concerned that this Court might broadly rule that Congress has no power to abrogate states' immunity with respect to claims under the Lanham Act. Although this case does concern a claim under Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a), the claim relates only to false advertising. Such a claim does not implicate traditional Fourteenth Amendment intellectual property rights, and therefore the AIPLA takes no

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[1] Pursuant to Rule 37.6, *amicus curiae* states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or its counsel.

position regarding whether this Court should affirm or reverse the Third Circuit's decision.

Section 43(a) provides for suits for trademark infringement in addition to other claims, such as the false advertising claim involved in this case. Because trademarks *are* intellectual property protected by the Fourteenth Amendment, if this Court does affirm the Third Circuit's decision, the AIPLA urges this Court to explicitly limit its holding in this case to Section 43(a) claims alleging that a defendant has made misrepresentations regarding its own product.

SUMMARY OF THE ARGUMENT

This case, brought under Section 43(a) of the Lanham Act, raises solely a claim concerning a defendant's misrepresentations about its own product. The claim does not implicate traditional property rights, and the AIPLA takes no position regarding whether this Court should affirm or reverse the Third Circuit's decision.

Claims under Section 43(a) of the Lanham Act for certain types of trademark infringement, however, do directly implicate Fourteenth Amendment property rights. If this Court does affirm the Third Circuit's decision, it should not broadly invalidate the Trademark Remedy Clarification Act, 15 U.S.C. § 1122(a) (the "Act"). Rather, it should strictly limit any holding to misrepresentations by a defendant regarding its own product.

ARGUMENT

THIS COURT SHOULD LIMIT ITS DECISION TO LANHAM ACT FALSE ADVERTISING CLAIMS

This case arises solely from allegations of false representations by a defendant concerning its own product under Section 43(a) of the Lanham Act. *See* Pet'r Br. 2. Because such allegations do not implicate Fourteenth Amendment property rights, the Third Circuit held that Congress did not have the power to abrogate Florida's Eleventh Amendment immunity.

Although not at issue in this case, a claim for trademark infringement does implicate Fourteenth Amendment property interests. "The right to use a trade-mark is recognized as a kind of property . . . ." *Hamilton-Brown Shoe Co. v. Wolf Bros & Co.*, 240 U.S. 251, 259 (1916). Courts have repeatedly recognized trademarks as property. *Chattanooga Foundry & Pipe Works v. City of Atlanta*, 203 U.S. 390, 399 (1906) ("A trade-mark, or a trade-name, or a title, is property . . ."); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916) ("[T]rade-marks, and the right to their exclusive use, are of course to be classified among property rights . . . ."); *Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 585 (5th Cir. 1980) (an infringer's use of the markholder's property to make a profit results in unjust enrichment that may properly be remedied through an award of profits); *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 121 (9th Cir. 1968), (trademark holder must be compensated where infringer has taken the plaintiff's property as represented by his trademark), *cert. denied*, 391 U.S. 966 (1968); *Bishop v. Equinox International Corp.*, 154 F.3d 1220, 1223 (10th Cir. 1998) (a trademark is a protectable property right); *New Kids on the Block v. New America Pub, Inc.*, 971 F.2d 302, 306 (9th Cir. 1992) (Kozinski, J.) ("A trademark is a limited property right in a particular word, phrase or symbol.").

Because a trademark is property, trademarks are protected by the Fourteenth Amendment's prohibition on state deprivations of property. In passing the Act,

Congress thus validly abrogated states' immunity to Section 43(a) as to actions for trademark infringement.

Despite the fact that Congress defined federal claims for both false advertising and trademark infringement in the same statute, the underlying rights involved in each of these claims are fundamentally different. This case does not raise the question of whether the Act constitutionally abrogates states immunity as to actions for trademark infringement.[2] Accordingly, this Court should strictly limit its holding to claims for false representations by a defendant about its own product.[3]

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[2] Nor does it implicate the question of whether the Act constitutionally abrogates states' immunity as to actions concerning a defendant's alleged misrepresentations about a plaintiff's product or service.

[3] The AIPLA believes that this Court's opinion in *Seminole Tribe v. Florida*, 517 U.S. 44 (1996), confirmed the viability of the waiver doctrine described by this Court in *Parden v. Terminal Ry. of Ala. State Docks Dep't*, 377 U.S. 184 (1964). *See* Brief for Amicus Curiae American Intellectual Property Law Association in Support of Respondent in No. 98-531. The AIPLA expresses no opinion, however, as to whether Florida has waived its sovereign immunity in this case. Here, neither the claim against Florida, nor the activities allegedly giving rise to Florida's waiver, implicate intellectual property, the AIPLA's sole area of interest.

CONCLUSION

For the foregoing reasons, the AIPLA respectfully requests this Court explicitly limit its holding in this case to claims for false representations by a defendant about its own product.

Respectfully submitted,

March 20, 1999

JOSEPH R. RE
Counsel of Record
MICHAEL K. FRIEDLAND
620 Newport Center Drive
16th Floor
Newport Beach, California 92660
(949) 760-0404

AMERICAN INTELLECTUAL
PROPERTY LAW
ASSOCIATION
Margaret A. Boulware,
President

Attorneys for Amicus Curiae
American Intellectual Property
Law Association

DON W. MARTENS
JOSEPH N. WELCH

Of Counsel